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letters TO THE EDITOR

Re: "people's capitalism"

•According to *Challenge Notes* for May, 1958, the term "people's capitalism" is beginning to lose all meaning. Your principal argument is that this is so because "only a very small fraction of the 8.6 million American stockholders exert–or even want to exert–any control over management policies."

I see your point, but does it not suggest a limited concept of what is meant by the term "people's capitalism"? Might I suggest, for instance, that our modern economy is being called a "people's capitalism" for many other equally important reasons? For instance, the ever more widespread sharing of our system's benefits, the tremendous growth of the middle income group, the gradual elimination of classes, the tremendous development in the field of social security–in short, the impressive and continuing progress toward greater social justice for all.

The above and similar factors–as well as the many and varied sources of business capital which you listed (such as insurance and pension funds, savings accounts, etc.)–seem to me to be the main reasons why our mid-20th-century brand of capitalism is beginning to be known as "people's capitalism."

Thus, the principal beneficiaries of the big change in our economic system and the main source of investment capital to run the economy are now the people as a whole rather than just a very few "capitalists." I am therefore inclined to believe that the term "people's capitalism" is impressively gaining rather than losing in meaning with every year.

THEODORE S. REPPLIER
PRESIDENT, ADVERTISING COUNCIL
Washington, D. C.

Junior supplement

•As a charter subscriber, I have had continuing high regard for CHALLENGE, and I think that it is potentially the foremost medium through which we lay people can become reasonably competent amateur economists. My thought, however, is that you are forced to hit your prospective public too "cold." Since our early training in the field of economics was deficient, many of us lack the background to appreciate the depth and significance of the articles that now appear in CHALLENGE.

I would like to suggest, therefore, that you consider establishing a companion publication that

perhaps might be called *Challenge Jr.*, addressed to high school students, with the idea of getting them ready to continue with CHALLENGE (Sr.) when they graduate and enter adult life. It seems to me that we need as solid an effort in this field as we now hysterically contemplate in science.

Perhaps the recession will provide the "economic Sputniks" that may be needed, but it is a shame that nothing substantial seems to be able to get under way without something spectacular to push it off. I think your magazine, with its head start and its basic purpose, has the responsibility as well as the opportunity to do something about this.

J. C. LEUKHARDT
Washington, D. C.

We have, at various times, considered doing what you suggest, but were forced to reach a negative decision. We are, however, interested in the idea of supplementing CHALLENGE *with additional background information. Currently, we are considering a variety of new features which will help bring this about.–Ed.*

Theoretical garbage

•I would like to see something in CHALLENGE about the real reason why prices continue to rise in the face of increasing unemployment.

Back in my high school days I studied economics. The textbook said that the law of supply and demand was inexorable, and when demand fell off, prices came down. Considering the present depression, and that is what I call it, I can safely throw my economics textbook into the garbage can.

Prices have been administered by big business, and not by the law of supply and demand; profits go up despite decreased production and sales. Labor cannot be blamed since it is still far from getting a fair share of what it produces, and lacks adequate purchasing power. If prices were reduced, labor would not go out for higher wages.

I have another observation. Some bright boys put on a big psychological show about a luxury product to convince Mr. Workingman that it is not only a necessity, but also has prestige value. Pretty soon the suckers swallow the bait, and go into debt to keep up with the Joneses. The worker needs more money, goes into his union, and the union gets him a higher wage. But, soon the Big Boys increase prices and the worker is in a deeper hole than he was before.

As I see it, the only solution is to turn a deaf ear to the supersales psychology boys. There are many things we can do without and still live abundantly. To heck with the Joneses!

ADELBERT Z. BODNAR
Cleveland, Ohio

Tax evasion

•You have, through the years, practically neglected, and you still do neglect, our income tax structure. Paying, evading and avoiding income tax are important subjects in our day and age and some of the doings of our government boys–especially the smaller ones–should be told to the public so that such practices could be held down.

WILL VANDAMENT
Columbus, Kansas

As a matter of fact, two articles on these subjects appeared in the March, 1957 issue of CHALLENGE.–*Ed.*

a personal note

from the editor

inflation as a way, but not a way of life

THE Bureau of Labor Statistics' latest figures on consumer prices indicate that the cost of living has set another record. The reasons behind these price rises, even while the economy remains stubbornly dormant, have been examined and explained many times by many people. The nagging question that wears out everyone today is: If we can't stop inflation in times of recession, how are we ever going to stop it once the economy begins to move ahead again?

Much has been said about wage-price spirals and cost-push factors that have built inflation into the economy. Such terms are only descriptive of trouble symptoms; they do not get at the cause or causes of the trouble. To understand the unique position of inflation in our economy today, we must get down to an examination of basic issues and attitudes. The most basic issue which confronts us today is the one which presses us to find ways to assure the survival of our society in a rising tide of hostility directed toward us by half the world. Our most basic attitude, our response to this challenge, is one of trying to talk normal economics: wages, profits, taxes, budgets, etc., without reference to the abnormal resource allocations required by a program for survival. The result has been a quiet acquiescence to inflation.

There are more schools of thought on inflation than any normal man with two arms can shake a stick at. The pros and cons stand in vivid contrast. The wonder of it all is that most of the opinions expressed have great merit. Good economics has been expounded by those who want to lower taxes or raise taxes; by those who want to declare a moratorium on wage and price increases, and by those who do not; by those who want to keep the federal budget balanced and by those who say this is not the time to worry about balanced budgets. Yet, even though all such views might have merit, they obviously cannot all have equal merit. Someone has to be right; therefore it becomes imperative that someone else with opposite opinions be wrong. The layman is

bound to be confused, but the only thing he wants to be sure about is that the opinions of those who are right are the ones that prevail.

There used to be a time, not so long ago, when political scientists taught that the foreign policy of a nation is a mere reflection of that nation's domestic situation. We have lived to see the day when we can say, with equal truth, that the domestic situation of a nation is a mere reflection of its position in world affairs. To many people such a proposition might appear to be analogous to the case of a tail wagging a head. Whether this is true depends entirely upon where one thinks the head and the tail are.

Consider for a moment what our domestic economy would be like if we did not have to support a giant defense establishment; if we did not have to pay for mutual aid programs; if we did not have to worry about underdeveloped areas; if the Russian threat did not exist; if the federal budget were only 25 per cent of what it is today. There are those who think that the federal government, as a large spender of funds, has spurred the economy to great heights. There are those who think that we would be living in a paradise if government expenditures could be kept down to 1913 levels. But I think we can all agree that if there weren't any "world situation," the American economy and American life would be a lot different from what they are today. Certainly the inflationary pressures would be less.

There is a nasty rumor going about that present-day conditions of world unrest are likely to continue for 100 years. There is another rumor going about, not so nasty, that very few people are interested in blowing themselves and everybody else into atomic dust just because they can't stand the suspense. If all this is true, then I think we had better start accommodating ourselves to the need for institutional and procedural changes geared to fit our will to survive and our preference to survive in freedom. The primary economic problem in the United States is inflation. It will be inflation for decades to come. This is a most dangerous problem because it eats into values to which we attached great importance in the past. An inflation which destroys stored up values from the past breeds a lack of confidence in the future. This is no way to struggle for survival.

If we come to recognize that inflation is the most serious enemy that we face at home today, we can become much more realistic in our approach to the problem of how to pay for survival. That it must be paid for is agreed. What we have to come to an agreement on is that inflationary policies make us pay through the nose.–H.B.

Challenge Notes

"Buying our way out of the recession"; a positive approach; the bureaucratic personality; an important cultural(?) trend

MEASURED in terms of all major economic indicators, this is the most serious recession we have experienced since the end of World War II. While it is true that the rate of decline has been slowing down in the last two months (and in a few industries, such as construction, has even been reversed), there are no signs of a substantial upturn before the end of the year at the very earliest.

This being so, current attempts to have the consumer show his faith in America by "buying us out of the recession" are ridiculous. What is more, they are "anti-capitalist," for they assume that the customer has some sort of moral obligation to buy regardless of his economic position and the values he is offered. But it is the unique feature of a free market economy that productive efforts must win consumer acceptance by meeting demonstrated needs. It is only in totalitarian countries that the consumer is expected (and often forced) to be "patriotic" in his buying. In a free society, a man's buying decisions are up to him. To suggest that he should be swayed by any consideration other than the values he is offered and his ability to afford these values, smacks of the kind of self-serving hypocrisy we can well do without.

A positive approach

THERE IS every reason to be optimistic about the long-run future of the American economy. At the same time, it cannot be denied that the current recession, while it has not directly affected most Americans' living standards, is more serious than most economists had anticipated.

Because the over-all health of the economy remains basically sound, general statistics often hide specific problems. Look at the figures on personal income. Taken at face value, the latest figures for April could be construed as evidence that the recession has touched bottom and that an upturn is imminent–and some commentators have done just that.

But a closer look will show that the most significant segment of the personal income figures–those

representing wages and salaries–have continued to decline. Indeed, wage and salary incomes have declined some 4.4 billion dollars, or roughly three times as much as during the corresponding period during the 1953-54 recession. In April, however, this decline was offset by such "transfer" payments as social security payments, unemployment benefits and payment of a special dividend to World War I veterans, none of which reflect increasing production and employment.

In a highly interdependent economy such as ours, "confidence" clearly plays a very important role in shaping decisions to buy, save and invest. But confidence implies trust and cannot be created by avoiding unpleasant facts. A positive approach requires that we also face up to some rather negative facts.

Bureaucratic personality

WHAT sort of person is the average government official? Most people think of him as a rather officious petty tyrant who uses the prestige of his government to sustain his own oversized ego.

Nothing could be further from the truth, according to Prof. Norman Martin, a sociologist at the University of Chicago. Prof. Martin, who is conducting an intensive study of the personality of "middle management" civil servants, concludes that most of them are "nice guys–perhaps too nice to fit the executive mold."

Far from seeking to impose his will on others, the average bureaucrat is afraid to assume responsibility or in fact do anything which might antagonize his colleagues. A little more boldness in stepping on other peoples' toes, Prof. Martin implies, might make for a less pleasant office atmosphere but would certainly result in better government.

Cultural (?) trend

ACCORDING to Ernest Dichter, President of the Institute for Motivational Research, there is an important cultural trend in America "away from the idealization of sheer glamor and the gradual substitution in its place of more bourgeois values."

As an example of this trend Dr. Dichter cites recent tests which the Institute has conducted measuring the public's emotional reactions to Esther Williams and her swimming pool company. Most people, he found, admired Miss Williams, not because she is a Hollywood star and an internationally famous athlete, but because she is a "family-oriented and natural person who spends a great deal of time with her husband and children." So much for culture.–M.K.

Recent disclosures about agencies like the FCC have revealed only part of the problem of assuring fair and effective operations

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Regulating the Regulators

by Louis W. Koenig

THE FEDERAL independent regulatory commissions are passing through a season of hostile criticism and sensational disclosures. The danger is that the furor created by recent investigations of the Federal Communications Commission will fail to produce a judicious and comprehensive evaluation which these uniquely American institutions deserve. This article will seek to put the commissions into broader perspective, by assessing their contributions, their shortcomings, and the ways in which they might be improved.

The independent commissions date from 1887 when the Interstate Commerce Commission was created. Major upsurges in their establishment have occurred in two great eras of economic reform of the 20th century–the New Freedom of Woodrow Wilson and the New Deal of Franklin D. Roosevelt. Today the jurisdiction of the commissions extends to all major forms of transportation, communications power, labor relations, monopolistic practices, banking and credits, and securities and exchanges. Bodies like the ICC, the Civil Aeronautics Board and the Federal Power Commission have broad powers of regulation, enabling them to fix rates, make safety regulations and decide what enterprises may operate, and where, by granting certificates of convenience and necessity. The commissions legislate rules and adjudicate cases involving their rules. Thus the commissions entail a rejection of the traditional separation of legislative, executive and judicial power in the United States.

Characteristically, the commissions are bodies of five to 11 members, assisted by technical civil service staffs, ranging from 500 to 2,000 in size. Commissioners are

drawn from both political parties with terms of office extending from five to 14 years. In general, the commissions represent a rejection of the extremes of private monopoly on the one hand and public ownership on the other. The commissions are a kind of middle ground intended to foster healthy private competition through government regulation, and, where private monopoly is unavoidable, to forestall its grosser abuses.

A closer look at the commissions reveals that these characteristics are based on certain fundamental assumptions. Of these, probably the most important is the belief that the commissions can and should be insulated as far as possible from "politics." Congress, which is in the habit of incorporating detailed expressions of policy in statutes governing the departments, goes to the other extreme with the commissions. In general, the commissions are subject to fewer controls in the appropriations process than the executive departments, and, in normal and happier times than they know now, they enjoy greater freedom from Congressional investigation. Similarly, the President's powers over the commissions are considerably fewer than those he exercises over the departments. Only in a few cases is he empowered by law to issue direct orders to the commissions. His budgetary powers are less complete, and his powers of appointment and removal are more circumscribed.

The emphasis on "political independence" is partly a heritage from the reformers of the late 19th century who distrusted "politics" and were intrigued with the possibilities of an "administration" operating free of what were considered the evils of political intervention.

Even more important is the belief that the very nature of economic regulation requires political independence. According to this belief, dispassionate economic analysis and informed judgment are preferable to changing political whims.

The political insulation of the commissions also seems well suited to other characteristics of the private economy. Business cannot very well undertake the long-term planning essential to its operations if government policies concerning rates, amortization and other vital matters are subject to the swings of the political pendulum.

Finally, there is the belief that the political insulation of the administrative agencies enables them to promote the public interest more effectively than is possible in Executive departments, such as

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Louis W. Koenig, authority on the Executive branch of government, is Associate Professor of Government at New York University.

Agriculture, Commerce and Labor, which are in effect at the mercy of the major voting blocs of our society. The politically protected status of the commissions, so the argument goes, enables them to be more responsive to the "public," as distinguished from private, interest.

For many years, the commissions have been disproving most, if not all, of the assumptions which led to their creation. Since the commissions are a varied lot, some have been more disappointing and dramatic in failure than others. But if anything has been disproven beyond a shadow of a doubt, it is the presumed political independence of the commissions. In a democracy, all administrative institutions must secure some external support. This may come from the President, Congress or its committees, the private interests on which the commissions' activities center, or, on some occasions, that faltering, erratic body, the general public. Commissions rarely attain a balanced support; usually they are overresponsive to one source. The ICC has often been called the best friend the railroads have. The NLRB in the Franklin D. Roosevelt era depended upon White House support. In industries such as television and aviation, where technological change is still a big factor and the business-operating pattern is unsettled, the commissions are bound to step on toes, making impossible the stabilization of their support. Such commissions are easier prey to legislative pressure and are more dependent upon White House favor.

Corrode political purity

Other forces work to corrode the political purity of the commissions. By long established practice, a large percentage of their memberships is dedicated to patronage. They are a favorite refuge for the workhorse Congressman who suffered defeat in the last election and is badly in need of a job. They are the currency by which a large miscellany of political debts are paid. Thus, Richard Mack appears to have prevailed over all other competitors for a seat on the FCC because of the overriding consideration that he was an Eisenhower Democrat.

By releasing the commissions from normal political controls, we help them become unmindful of public opinion. In such an environment, the little men who all too often compose the commissions can indulge in the kind of moral immaturity which the FCC hearings have disclosed.

The commissions have been disappointing in other ways. For all of their importance to the economy, they are amateurishly administered. The commissions suf-

fer badly from the several pathologies usually associated with the plural executive: indecisiveness, slowness and the overburdening of the top with the minutiae of operations. Their staffs of civil service experts are generally poorly utilized. There is excessive review by the commissions of the experts' determinations, and too many reversals. There is amazingly little planning of policy, which usually develops by inching along in the case-by-case approach.

Several of the commissions have also taken on some of the agonizing slowness of the judiciary. The FCC, for example, has been found to take an average of five years to decide between competing applicants for a television channel.

Store of useful ideas

In light of their shortcomings, what can be done in the way of improvement? In answering this question, it is important that we do not overlook the studies and recommendations compiled in recent years by the Hoover Commission, the Attorney General's Committee on Administrative Procedure, the American Bar Association and by thoughtful legislators and executive officials. These studies contain a store of useful ideas waiting to be tapped.

There is wide agreement that the commissions should not be abolished, but continued with improvements. The current maladies of the commissions have afflicted our other major forms of governmental administrative organization, the departments and the corporations. There is little likelihood that the morality of our public officials will be improved simply by shifting them from the commissions to other forms of administrative organization.

A quite different approach has been proposed by the American Bar Association. Legislation sponsored by the Association and introduced in Congress would apply the canons of legal and personal ethics to representation before the commissions. In the same vein, the SEC has drafted a "Canon of Ethics" as a possible personal-conduct guide for members of all the regulatory commissions. In commenting on these several proposals, Bernard Schwartz, former counsel to the House Subcommittee on Legislative Oversight, has made the eminently sensible suggestion that these codes must be accompanied by strong legal sanctions and an effective apparatus of enforcement. Yet, even the best law imaginable will amount to little, unless it is supported by a sustained public opinion. This, of course, is asking a great deal of public opinion.

The commissions might act with a keener moral sense and awareness of public interest, if

they were linked more closely to the President. The aim would be to convey the responsibility and responsiveness of the President to the general opinion of the nation into the affairs of the commissions. By having closer ties with the commissions, the President would be better informed of what the commissions are up to. If there is wrongdoing, the President could then be expected to act.

These links would be of a limited type not calculated to disrupt the essential independence of the commissions. For example, the President might appoint the chairman of all commissions, as he already does for several commissions. Also, the cabinet member whose own department is most closely related to the work of a given independent commission might serve as an ex officio member of the commission. The Secretary of Commerce, for instance, would have such a status with the FCC, CAB and ICC. Finally, the commissions might be brought, more than they have, into the memberships of the interdepartmental committees.

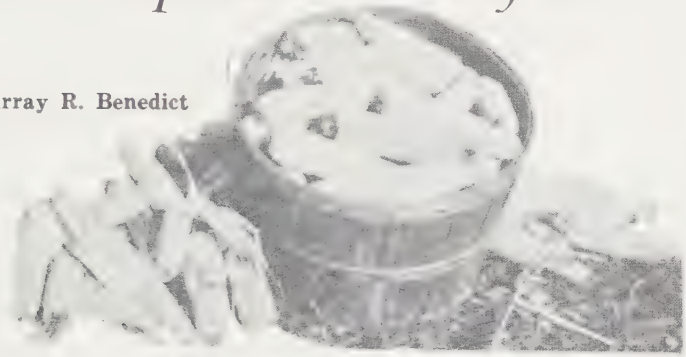
It is all too clear that the commissions need men of better caliber. In recent years, there have been too many who have taken commission appointments as a second-choice plum. To get better men, we need better pay and a stronger tradition of reappointment. We need to tap several important sources which have been very much neglected–the universities and men who have proven themselves on state and local regulatory commissions. We could well use career civil service personnel that are in the inspiring tradition of Joseph B. Eastman of the ICC.

We should be able to overcome the administrative amateurishness of the commissions by careful study of their internal structure and operating procedure. The experiences of TVA and the Civil Service Commission suggest the wisdom of vesting administrative authority in the chairman and providing him with a general manager drawn preferably from the career ranks. These two officials would be a bridge between the commissioners and the expert civil service staff. Planning units, which are generally lacking in the commissions, might be successfully established, if coupled with a chairman endowed with administrative authority and aided by a general manager.

There are other directions that we might profitably look to in our efforts to improve the commissions. It is important that we not be deterred from doing so by a sense of defeatism engendered by the sensational disclosures of the subcommittee on Legislative Oversight. ■

Farm Surpluses: Liability or Asset?

by Murray R. Benedict



Excess farm production can be stockpiled for use in defense emergencies

IN THE short space of 10 years or less, we have become so accustomed to thinking of agricultural abundance as a problem that already we have lost sight of the more painful and costly inconveniences of shortages and rationing. Since 1953, the problem of farm surpluses has been in the news almost continuously. It was a specter lurking in the background even in the 1940s and, of course, was a matter of major concern in the 1920s and 1930s.

While the cost and political implications of the large stocks of farm products now held are a very real cause for concern, we nee also to recognize that life in an economy of overabundance is far less irksome than life in a setting of serious deficits. Surpluses are not inevitable, and shortages could come again. To be sure, we experienced no severe pinch in food supplies during the war decade. However, there were reasons for this happy circumstance which may not be as prominent if war should come again.

First, we were far removed from the areas of actual conflict. Even in the "old style" wars of recent decades, food conditions were far less favorable in most of the belligerent countries. At times, in both World Wars, the food supplies of Britain and other allied belligerents were dangerously precarious. Secondly, we were blessed with excellent growing conditions throughout World War II. Also, we came into the war with huge stocks of wheat, corn and cotton—stocks that were then considered burdensome and undesirable. The situation was made still more favorable by the most phenomenal

advance in agricultural technology the world has ever seen.

Yet the food situation was sufficiently tight to result in a marked food-price inflation which helped to set off the general inflationary spiral of the early postwar years. Had it not been for our abundant prewar stocks and a 25 per cent increase in farm output during the decade following 1939, the food situation would have been much less easy. True, we could have managed to feed our own people with a substantially smaller volume of foodstuffs than we produced in those years. But the sizable, though still inadequate, quantities we were able to ship to Western Europe in the late 1940s undoubtedly helped to stem the Communist advance.

Process of reconstruction

They enabled Europe to weather that difficult period and to begin the process of reconstruction. The accomplishment of these ends was perhaps as important from our standpoint as the maintenance of adequate diets at home. The European food situation was not made easy, but it was made bearable.

Again in the Korean war period, a sudden increase in demand, which was largely speculative, carried farm prices up from an index of 250 to 302 (1910-1914=100). Again the influence of farm prices was on the inflationary side. The experience of 1950-1952, like that of 1941-1945, illustrates the fact that demand can change very quickly and substantially. It was not a case in either period of a sharp reduction in output superimposed on the demand change. Instead, farm output continued to move up, and by 1955 it was 12 per cent above the 1950 figure.

We have not had to face the consequences of a sharp drop in farm output since the early and middle 1930s. In those years farm output dropped from an index of 104 in 1931 to 79 in 1934 (1934-39=100), a decline of 25 per cent. With the heavy stocks then on hand and the very low level of demand then prevailing, such a contraction of output could be taken in stride.

What has all that to do with the current farm surplus situation and its relation to defense planning? First, a number of widely prevalent misconceptions need to be cleared away. The federal government's stockholding agency for farm products, the Commodity Credit Corporation, does not hold surpluses of all kinds of farm products. Its activities are confined almost wholly to the "storables," that is, mainly to wheat, corn, grain sorghums, rice, cotton and tobacco. It has held sizable

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quantities of semistorables such as butter, cheese, dried milk, dried eggs and cottonseed oil. But these mostly cannot be kept for long periods without deterioration. Hence, if heavy stocks are acquired in price-support operations, they tend to be disposed of through special programs like contributions to school lunches and charitable institutions, sales to other countries or conversion to inferior uses.

This means, then, that we do not stock extensively and across the board the kinds of things we need in case of war or other major disaster. We do not and cannot stock much beef, pork, milk, vegetables and fruit, under ordinary conditions, and not much dried eggs, cheese and other semistorables.

Unwilling buyer

It should be noted, of course, that the primary purpose of the CCC legislation is not that of stockpiling for defense or war purposes. The objective is support for farm prices. The CCC–that is, the government–is in the position of unwilling buyer. It would prefer to have the commodities sold in the open market, but, having set prices above what the market will pay, it becomes the residual outlet for the amounts that cannot be sold commercially.

The problem would be clearer and simpler if CCC did have a specific legislative directive for the maintenance of strategic reserves. Some part of these holdings is actually a strategic reserve, but it is not differentiated from the stocks acquired unwillingly in connection with the price-support program. In fact, the legislation implies a desire to bring CCC holdings down virtually to zero, except for some modest volume needed to stabilize supplies and prices. Presumably, thereafter only such stocks as farmers and the trade would carry from profit motives would be maintained. That obviously is too small a reserve in these unsettled times.

However, we must not place too much stress on the importance of stocks of storables. The real reserve is the current and prospective production potential of American agriculture. It is from this that the beef, pork, eggs, milk, cheese, butter, vegetables, fruits and even the major part of the wheat, cotton, corn and rice will be derived. This is a flow resource, not a stock resource. The primary consideration from a defense standpoint is to keep this basic resource healthy, adequately supplied with capital goods like machines, fertilizer and buildings, and so staffed with labor, management and know-how that it cannot only maintain the needed flow of products but can expand quickly if the need should arise.

The place of the stocks of storables is, from a strategic standpoint, that of meeting sudden increases in demand for these particular products, or offsetting, in part at least, sudden or unpredictable decreases in output. For these purposes the stocks apparently do not need to be as large as they have been in recent years. But they do need to be of substantial size, and the maintenance of an adequate reserve should be looked upon as a defense cost, not as a price-support operation.

How excessive are the current holdings? Wheat carry-overs in recent years have been about one billion bushels. Some modest reduction is being made currently, but only by using special methods of sale. It would seem unwise, under existing world conditions, to reduce government holdings much below 400 million to 500 million bushels. In the pre-1930 period the amounts customarily carried over by the trade were in the order of 100 million to 200 million bushels. The trade now relies more heavily on government stocks. We had a carry-over as of July 1, 1941 of 468 million bushels. That amount was then regarded as excessive. But it proved a very useful asset in the war years and would have been even more important had we not had good crops through the war and postwar years.

Our cotton carry-over reached a record high of more than 14 million bales in 1956. In 1951, it was only 2.1 million bales, an amount that was obviously too small. It was a result of high demand, a rather modest carry-over in 1949 and 1950 and a poor crop in 1950. The result was the rationing of cotton to our own mills and the placing of embargoes on exports. The shortage was damaging to the industry and to its markets. From the standpoint of national safety and the maintenance of orderly marketing arrangements, it would seem that we should maintain a carry-over of not less than five to six million bales.

Reasonable assurance

Corn, the primary feed grain, is the other major item in CCC holdings. Here the aim should be to provide reasonable assurance of the amounts needed for stabilizing the livestock industry. The great bulk of the corn used is not sold as corn, nor is much of it exported. It is the primary concentrate used in feeding livestock. Most careful students of the livestock-feed economy consider a carry-over of 600 to 800 million bushels of corn to be needed from the standpoint of safety and stability of the livestock industry. That amount is considerably larger than the trade carried in the pre-1930 period, but the industry is

much larger now and the hazards are more serious.

The October 1 carry-over in 1941 was about 645 million bushels, then considered too high. But in the light of later events it was not excessive. Stocks reached a record high of 1,450 million bushels in 1957, which is clearly a higher level than is needed, especially in view of the current heavy accumulation of other feeds such as sorghums, oats and barley.

The various other storable commodities like wheat, corn and cotton are at higher levels than the public interest seems to require, but not so much higher as many have been led to believe by sensational public comments. We probably should reduce our stocks of wheat by 400 to 500 million bushels and our cotton by five to six million bales. Current production is not as much out of balance as these figures imply, but some further but rather modest downward adjustments of production are needed.

The agricultural plant is apparently fully capable of supplying the national needs for other farm commodities, and the production potential may increase over the years just ahead at a slightly faster rate than that of the prospective increase in demand.

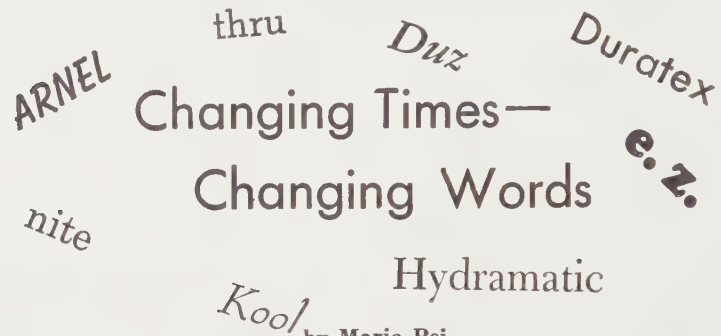
Possible military destruction and contamination remains a major problem. This needs study, but little can be said with assurance at this time. As far as the major stores of farm products are concerned, both stocks and production are widely scattered. They could not be knocked out in any comprehensive way except by almost universal coverage of the United States as a target area. Transportation and processing facilities might be seriously damaged, but within reasonable limits the flexibility of U.S. road and truck resources probably would make it possible to handle almost any conceivable situation that might arise. The food processing industries are probably the most vulnerable link in the chain, but even these are widely scattered, and we could undoubtedly find ways to meet an emergency situation.

The fact remains, however, that we do not have a well-defined policy on emergency food reserves and we lack ideas for making full use of our abundance. ■

How Ya Gonna Keep 'Em Down on the Farm?

IT WOULD SEEM that not Paris, but the large investment required to set up a modern farm, is keeping the overwhelming majority of agricultural college graduates off the farm. According to latest figures, 83 per cent of these graduates have gone elsewhere.

New developments, assisted by communications and advertising, are causing continual revisions in the language we use



by Mario Pei

TWO FORCES working in opposite directions are reshaping the American language at the present time. One pushes the language into a standardized, conventional mold; the old regional accents and expressions are squeezed out of existence in favor of a universal, uniform American speech that becomes more and more the common medium of exchange in city streets and country lanes alike. The other adds the spice of variety and never-ending novelty to the American vocabulary, breaking it up into separate tools for separate segments of the population. The strange thing about these two contrary forces is that they stem from the same areas of activity–promotional advertising and modern technology.

A second contradictory effect of the two currents issuing from the same sources is that, while in a sense they vulgarize the language, they also tend to lift it into higher and more specialized spheres.

The language of promotional advertising must be nationwide in order to achieve its avowed purpose, nationwide sales. It is this language which pervades the chief advertising media–radio, television, the press and particularly the magazines with national circulations. It is this highly standardized language that exerts its powerful leveling force upon both our spoken and our written tongue.

What are the characteristics of the language of advertising and promotion? First, it must avoid localism, both in accent and in form. It will not do, on a coast-to-coast hookup, to feature the drawl of the South, the nasal twang of the Midwest or the grosser features of the New York speech. Nor may the advertiser use, or permit to be used, expressions which have valid meaning in one

area and not in another, like the Southern "poke" for "bag" or "sack," or the Boston "tonic" for "soft drink." The penalty is misunderstanding, ridicule and, worst of all, loss of sales.

What is the reflection of this advertising speech, standardized as to both vocabulary and pronunciation, upon the speech of the listeners and readers? Since we all unconsciously tend to imitate what we hear and read, the general effect is a leveling one. Linguistic field workers unanimously report that there is a gradual disappearance of local features in the United States language, with a tendency toward uniformity of both vocabulary and sounds.

The promotional language, however, also tends toward the least common denominator in educational standards. This, too, is a necessity. If you speak or write over the heads of your audiences, you may antagonize and lose vast segments of potential buyers of your products. Therefore, the niceties of pronunciation and grammar are avoided. The advertiser or newscaster does not hesitate to violate the taboos of formal grammar. Torrents of ink have flowed over "like a cigarette should," but other violations go almost unnoticed. Split infinitives and dangling participles abound. How often do you hear "It is I" or "Whom did you see?" on radio or television? How often does a radio or TV speaker pronounce the first *r* in February, the first recommended pronunciation in Webster's? Have you ever, on radio or television, heard "margarine" pronounced with the *g* of "good," as both orthography and etymology would seem to require?

Vulgarisms and colloquialisms are seldom created by the language of advertising, but they are undoubtedly sanctioned, perpetuated and given wide currency by that language. This is also true of the written language of the advertising press. Here is an advertiser warned by numerous readers that the product he is trying to sell is a "chaise longue," not a "chaise lounge." His reply? "The way I have it in the ad is the way 90 per cent of my customers both spell and pronounce it; the customer is always right."

Up to this point, we could go along with the promotional language on two separate counts: (1) it is not the function of advertising to act as a watchdog over the language; (2) English, particularly American English, has no set standard save that of general usage.

But there is another sin of which the advertising language is guilty, one that results in delib-

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Mario Pei, Professor of Romance Philology, Columbia University, is a well-known writer on linguistics.

erately created distortions and confusions. Spelling like "nite," "kool" and "E. Z." are bound to throw youthful minds into uncertainty. It may be only a newspaper story, but the fact that a whole roomful of school children wrote "duz" for "does," and defended the spelling on the ground that that was the only way they had seen the word spelled seems to point to a definite danger. The following precise charge is made by Dr. Francis Shoemaker, Professor of English at Teachers College of Columbia University: "Through the forceful presence of very effective advertising, our spelling is being markedly altered. For the purpose of a pun or a quick advertising phrase, the sound of the words we use is gradually being changed. This powerful force in society is in many respects operating contrary to the aims of education."

Perhaps he had in mind a distortion of spoken "hello" which made it sound more or less like "halo." This writer can testify that this bit of radio advertising threw at least one foreigner into confusion. "Am I pronouncing 'hello' correctly," the foreigner inquired, "or should I pronounce it as I hear it on the radio?"

Multiplying vocabularies

If we look at the other force exerted upon our language today, this is what we find: a rapidly expanding technology which multiplies special vocabularies and occupational jargons to the point where each becomes incomprehensible to the speakers of another, but which also expands the official and legitimate vocabulary of the language to the point where the literate, educated, cultured speaker is lucky if he knows and is able to use one out of 10 words in the language.

Consider these undeniable facts. Our best and most comprehensive dictionaries of English at the time when English was still Anglo-Saxon do not go beyond 50,000 words. Making allowance for the words then in spoken use which never got into writing, we are being overgenerous when we credit the English language of the year 1000 A. D. with 100,000 words.

Today, our most comprehensive dictionary of the language, the *New English Dictionary,* lists well over 500,000 words. But the *New English Dictionary* is already hopelessly outdated. A comprehensive dictionary of all the words in use in the English-speaking world today would probably run past the million mark.

Consider the older history of our language, with the host of French words that entered the English language during and after the Norman Conquest, the Latin and Greek cultural words that

came in with the Renaissance, the mass of words borrowed from German, Dutch, Italian, Spanish, Arabic, American Indian languages and almost every tongue under the sun, and the hosts of dialect and slang words. Superimposed on this wealth are hundreds of thousands of words of comparatively recent coinage which fit into the professional and occupational patterns of present-day civilization, and whose number is growing at the rate of several hundreds per day. They come from the expanding vocabularies of medicine, chemistry, physics, astronomy, engineering and nuclear fission, on the one hand; the vocabularies of commerce, both national and international, the mechanical and other trades, the armed services and lines of endeavor that did not exist a hundred years ago like automobile and airplane construction and servicing, on the other hand. They go on filling the more comprehensive dictionaries with terms, expressions, combinations of words, new meanings, that the layman, or even the linguist, can never hope to master in a hundred lifetimes.

Skirt the problem

There is no such thing as "knowing" your own language, let alone a foreign one. You may master the sound-pattern, the grammatical forms, the syntax; you will never master the complete vocabulary.

You can skirt the problem by saying that it is not necessary for the engineer to know the terminology of medicine, or for the sociologist to know the special language of the automobile mechanic. The trouble is that these special vocabularies, or at any rate large segments of them, keep spilling over into the general vocabulary of the layman. If you claim to be at all literate, you must have at least a general idea of what is meant by the "id" and "libido" of the psychologist, the "resection" or "hysterectomy" of the surgeon, the "isotope" and "positron" of the atomic scientist, the "debenture" and "short sale" of the Wall Street broker, the "writ of certiorari" and the "veniremen" of the lawyer, and even the "gasket" and "bushing" of the man who fixes your car.

Magic words

When droves of words coming from the specialist's terminology are forced upon you by the advertiser, with words like "Hydramatic" and "Irradiated," "Irium" and "Arnel," "Duratex" and "Oldsmobility," "Beaverette" and "Naugahyde," you can either disregard them or accept them on faith, like magic words, or look them up and find out what they actually mean. In the last eventuality, they serve a truly useful purpose, since they

add to your own personal word-stock and general understanding of the world around you.

On balance, it may be said that the language of science and technology, each segment of which is indispensable to its specialized users, multiplies, enriches and complicates the general vocabulary to the point where it can no longer be grasped in its entirety by even the most cultured. Its impact, however, is largely superficial to the extent that it affects only the vocabulary, not the sounds or grammatical structure of the language.

The language of promotional advertising has a subtler, deeper and more pervasive influence. It tends to unite the speakers and obliterate their geographical and even their social divisions. It also tends to vulgarize ("debase" is perhaps too strong a term) their spoken and written language; but this, in the case of a language like English, is not an irremediable catastrophe.

It definitely tends to stress the short, pithy, monosyllabic elements of vocabulary. A prime example of this is the quick shift we heard on the radio from "If headaches persist or recur frequently" to "If headaches hang on too long or keep coming back." But this again is no real drawback. It tends to do away with the personal pronouns "it" and "they," favoring instead the endless and annoying repetitions of the name of the sponsor or product, to the point where in the year 2000 a foreign chronicler of the American English language will say: "Personal pronouns, which are still quite alive in British English, are obsolescent in American. This is particularly true of the third person neuter pronoun *it*, which only the older generations of American English speakers occasionally use today. Instead, Americans prefer to repeat the noun over and over again, often with ludicrous effects."

On the other hand, the deliberate creations of the advertising language, while often brief, breezy, monosyllabic and phonetically spelled, are almost as often of the lengthy, magic-word variety. They are designed not so much to enlighten as to ensnare.

Can anything be done about all this? In this writer's opinion, not a blessed thing. ■

Scholarly Slogans

MADISON AVENUE, which has developed such a flair for the noun "togetherness," seems to have hired Hebrew scholars to come up with the word. Togetherness or its Hebrew equivalent "yakum" dates back to the early Christian era and appears in the Dead Sea Scrolls. Motivation researchers beware: the linguists have a new world to conquer!

AFTER THE MERGER

Corporate weddings can bring about strong new firms–or painful divorces

by Mitchell Gordon

A RECENT government survey of more than 2,000 corporate marriages occurring over a four-year period showed that most companies merge to better serve existing markets. Other reasons mentioned were a desire to lengthen their product lines, to diversify or to get into entirely new fields. A small minority sought greater control over their sources of supply and an enlargement of markets for products they already had.

To what extent do mergers enable companies to realize these goals? Why do some business marriages end up in divorce or in unhappy union?

This has been the subject of no government study. Corporate mergers require the approval of the federal government, but there's no one to stop a corporate divorce–and, hence, no count of their number. Indeed, postmerger rifts are usually hidden from the public. Talks with dozens of management consultants and business executives with merger experience, however, throw considerable light on postmerger problems.

These experts agree that companies which merge for business rather than purely personal empire-building reasons generally manage to stay merged. But a good number of them, perhaps as many as one in five, do not. Still others make the best of a poor situation which it is no longer practicable to change. Almost all encounter some unforeseen problems in the merged relationship.

C. Wilson Randle, a partner in the nationally known management consulting firm of Booz, Allen & Hamilton, puts his finger on the

most common difficulty. "Most of the serious problems that grow out of a merger," he says, "are those involving human relationships."

A top executive of a Boston firm that makes surgical dressings can testify to the truth of Mr. Randle's observations. His own company joined forces with a foam rubber company some years back for the sake of improving its product. But the man who ran the foam rubber concern, and created it, couldn't stop being an individualist. They had to remove him and set him up as a consultant or both businesses would have been ruined.

Personal service

On the other hand, an Eastern watch manufacturer who let the president of a newly acquired Western electronics concern out to pasture, lived to regret the move. They lost his old customers who had been accustomed to the personal service he had been giving them.

What is the solution? A man who has engineered close to a dozen successful mergers in the past couple of years, has his own formula. A. M. Sonnabend, president of Botany Mills, Inc., sees to it that part of his acquisition agreement involves a long-term employment contract with key executives which ties a sizable part of their future compensation to profits. In this way, they have an incentive to go on producing.

Money problems may also lead to a corporate rift. A little over a year ago, Raymond E. Lee was called in to head the faltering Tel-Autograph Corp., a producer of devices for the remote transcription of handwritten messages. The old management had put the company into some four different lines in less than a year, most of them in fields completely unrelated to the office equipment business. Mr. Lee shed the offshoots as fast as he could. "They all stood in need of considerably more capital," Mr. Lee recalls, "but our main line of business needed the money more."

Mergers with financially weak companies often result in a lowering of morale among the acquired firm's executives once they realize that they cannot rely on financial help to achieve cherished objectives. Management advisers do not give much chance to the money-starved merger unless the act of merger itself opens doors to new capital.

The merged corporate couple must also have easily harmonized "outside interests." Their merger cannot, for example, cause them to lose their most important customers. Not so long ago, a big

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Mitchell Gordon, *Wall Street Journal* reporter, recently made a study of corporate postmerger problems.

construction firm, Merritt-Chapman & Scott Corp., found that the equipment makers it had acquired, Marion Power Shovel Co. and Osgood Co. were no longer selling their equipment to other construction companies simply because those companies didn't want to bolster the stature of one of their biggest competitors, Merritt-Chapman itself.

Customer relations can also be strained if the management of the expanded concern fails to inform customers of established policies which the merger may have thrown open to question. Management consultants advise clients to consider beforehand the likely effect the proposed merger will have on both their own and the other company's customers.

Corporate divorces

While these three problems, along with the antitrust actions of the U. S. Department of Justice probably account for more corporate divorces than anything else, there are a great many other factors which can impair the profitability of mergers. The merged concern may be saddled with a top-heavy administration. Thus, an executive who has been trying to pull the Studebaker-Packard Corp. out of its economic nosedive, says the two merged automakers had gone on for years with their own styling and financial departments when efficient administration demanded integration.

A streamlined administration, however, may be for naught if the merged firm is not able to keep abreast of technological developments. Textron Inc. has had this problem for years with Ryan Industries Inc. simply because Ryan's principal product, a chaff dispenser designed to confuse enemy radar, was outmoded by new radar equipment that came into operation shortly after the merger took place.

Unfamiliarity with a market may cause executives of the merged corporation to overestimate the potential of a prospective partner. A Minnesota maker of agricultural handling equipment took on a company in Pomona, Calif., that made metal containers for bulk feed. The Minnesota company immediately doubled the plant capacity and work force of the Pomona concern only to find that the Pomona executives were unable to cope with the enlarged operation.

Unions, too, can create unforeseen difficulties for the merged enterprise. Generally, their demands will entail raising wages and other benefits to the highest level prevailing in the two concerns. Jurisdictional disputes can result through failure to sound out unions well ahead of the mergers.

The merged management, must

be prepared to face such sticky problems as how previously accumulated seniority is to be calculated in the new concern. It must also take severence pay into consideration when figuring economics of the proposed merger if any layoffs are contemplated. One look at this item, which ran to some six million dollars under a Civil Aeronautics Board ruling, was enough to disenchant the two all-cargo airlines, Slick Airways and the Flying Tiger Line back in 1953; the lines had actually started to merge their operations, and even leased out some aircraft they thought would be superfluous, when that figure caused them to untie their knots.

The marketing problem

Marketing can also be a problem for the merged management. Executives thrown into new lines of business find they must bone up on advertising and distribution methods. "Usually, the reason a company is up for sale or open to merger in the first place," says Palen Flagler, marketing director of J. P. Stevens Inc., "is that it isn't doing too well under existing management–and that means the new management must be able to do a better job." Executives who expect to learn too many new ropes too quickly often find themselves losing customers in the process.

Minor irritations, as well as major ones, lie in wait for the corporate couple. Executives of two merged insurance companies, for example, were recently confronted with possible expulsion from their respective trade associations because one accepted members only if they wrote their own insurance, and the other, only if they used agents; by merging, the new concern was to do both. It overcame the objections, for the time being at least, by agreeing to maintain two entirely separate operational identities despite their legal and financial union.

Postmerger problems are, of course, endless in number and variety. Knowing that he cannot foresee them all, one highly successful merger architect abides by this philosophy: "No matter how fully I investigate potential problems," he says, "I still go into a merger knowing it looks better than it really is, that every operation has its cold showers and that corporate mergers are no exceptions." Says Thomas J. Rosenberg, a partner in the New York management consulting firm of Anna M. Rosenberg Associates: "Corporate marriages are no different from human ones–it's not all wedded bliss after the altar." ■

ACCORDING TO one disinterested octogenarian, "The automobile has proven to be a great moral force; it has almost ended horse stealing."

Violent fluctuations in the prices of internationally traded commodities cause great problems, particularly for underdeveloped nations

by Ben T. Moore

SINCE THE end of the world-wide inflation which followed the outbreak of the Korean war, the prices of many important internationally traded commodities have shown noticeable weakness. Recently, the American recession and the slackening of Western Europe's economic growth have reinforced this downward trend, and there have been sharp price declines in certain metals and other industrial raw materials.

The underdeveloped countries are among the important producers and exporters of these commodities; consequently they have been hurt. Their earnings of foreign exchange have fallen off, and pressure by American producers of such products as copper, lead, zinc and petroleum to reduce imports seems likely to cut these earnings still further. Their economic development plans, which depend heavily on the availability of dollars and European currencies, may be undermined. Small wonder that the clamor for a new attack on the old problem of instability in commodity prices is rising

Should the United States modify its long-standing opposition to agreements to stabilize commodity prices? Is the present situation different from other periods of price weakness since the war which have been overcome without drastic action? Can anything be done to improve the position of the exporters of raw materials and agricultural commodities without creating even greater difficulties for the world economy by imposing unacceptable burdens on the advanced countries?

In searching for answers to these questions, let us look at the postwar history of this problem. In United Nations reports and elsewhere, the economic doctors

have emphasized that the great instability in world prices of raw materials and foodstuffs causes serious difficulties for the exporting countries which often depend for their foreign exchange on one or two commodities. High prices expand their overseas earnings but lead to inflation at home because incomes go up rapidly without a corresponding increase in available goods. Low prices reduce earnings, force curtailment of imports and result in deflation and unemployment. Either movement interferes with economic development, which needs a steady inflow of capital equipment and stable conditions of foreign exchange to attract such an inflow. These difficulties are intensified by the relative rigidity of the prices of manufactured goods which constitute the bulk of their imports.

Soaring prices

Nor does such price instability benefit the industrialized, importing nations. Soaring prices of imported commodities have contributed to inflation, and abrupt declines have weakened foreign markets for manufactured exports.

These problems have led the experts to propose many different types of international commodity agreements designed to hold prices within narrower limits than would be possible in an uncontrolled market. A variety of devices has been suggested: maximum and minimum prices, export and import quotas, buffer stocks to adjust supply to demand and various combinations of these. The aim has been not to influence long-term price trends but to reduce the fluctuation during these trends.

Thus far, international stabilization and control agreements remain limited. Three commodities—wheat, sugar and tin—are covered by agreements, although not all trade is included. During the period of extreme shortages in 1951, an agency known as the International Materials Conference was established. This body agreed on quotas for the important commodities to allocate the available supplies among the importing countries as equitably as possible. But as the shortages disappeared, the IMC withered away, and most commodity prices continue to fluctuate in response to uncontrolled market forces.

Commodity agreements are inherently very difficult to negotiate. The conflicting interests of exporters and importers often make agreement on quotas difficult.

Even so, the continued reliance on free markets is primarily the result of the opposition of the largest importer, the United

Ben T. Moore is currently engaged in a Twentieth Century Fund study of commodity-price stabilization.

States, to commodity agreements. Free markets, we have urged, are the most efficient institutions to govern the production and distribution of the world's internationally traded commodities. Our obvious abandonment of ideological principles with respect to American farm products has hardly weakened the point, in view of the obvious inability of our domestic agricultural programs to adjust supply to demand.

Compelling reasons

But there have been other, more compelling reasons for our position. The fluctuations in international commodity prices may have added somewhat to the instability of our national economy, but they can hardly have been decisive compared with purely domestic developments and policies. The increase in our import bill when prices are high has been balanced by a reduction as prices fall. Stabilization programs are expensive, and the United States would inevitably be called upon to provide a large part of the funds for any scheme in which it participates.

Moreover, there has been a strong feeling in this country that commodity agreements are likely to break down. Stabilizing prices around a long-term trend is a laudable objective, but how is the trend to be determined? Who is to say what a fair price for coffee or cotton should be five years from now? If there is no agreed-upon trend, short-term stabilization is likely to degenerate into an effort to hold prices up, or to keep them down, depending upon the current vagaries of the market and whether exporters or importers are dominant in the operation of the stabilization machinery.

For these reasons the United States has opposed commodity stabilization programs in the past. What is the likelihood that it will change its policy in response to the present pressures from the underdeveloped countries? Are there any new elements in the present situation which could lead to a different American reaction?

A lot will depend upon whether we regard the present relative overproduction as short term or long term. If the present price declines can be held to manageable proportions, then no major changes are called for. But the production base for many commodities has been steadily expanding under the stimulus of rapid rates of growth and demand in both Europe and North America. Commodities like coffee and nonferrous metals, in which the Western Hemisphere was predominant before the war, are now produced in much greater quantities in Africa. If expansion in Europe and the United States is due for a pause

longer than a few months, the producers of several commodities will face a problem of potential oversupply more serious than anything they have confronted since 1940.

Substituting commodities

Another difficulty which has been increasing in importance for some time is the growing possibility of substituting one commodity for another. Copper and aluminum, for example, are interchangeable for many uses in the electrical industry, and the Western Electric Company is now set up to move quickly and easily from one to the other depending upon the price advantage. Synthetic fibers can replace wool, cotton and even jute. In the case of coffee, the development of the processed instant form tends to reduce the quality advantage of the Latin American over the African variety.

These possibilities of substitution also complicate the problem of supporting commodity prices. If the price of a substitutable commodity is supported while that of the alternative product is not, price supports will merely stimulate the use of the cheaper substitute. Under these conditions, the exporting countries may find their commodity incomes lower than if they allowed the price to fall and maintained their volume of sales.

But these difficulties would not, by themselves, lead the United States to change its position against commodity agreements. For, as a major importer, the United States can expect to benefit from the lower prices now in prospect.

There is, however, a political factor which is new in the sense that it is more generally recognized than ever before. The United States is committed to assisting the free countries of Asia, Africa and Latin America in developing their economies, and federal funds are now flowing to these countries for this purpose. If the decline in foreign exchange earnings from commodity exports should seriously jeopardize the development prospects and political stability of the exporting countries, the United States would be forced to provide more aid to prevent such a deterioration. The American taxpayer and consumer may be better off if steps are taken to maintain the commodity incomes of the exporting countries, even if this means higher import prices and greater appropriations, than if extremely costly exchange and political crises are allowed to occur in one underdeveloped country after another.

Soviet actions are also likely to influence American commodity policy. The Soviet government has already shown how it can take ad-

vantage of commodity surpluses in underdeveloped countries by stepping in with large contracts and barter deals. Egyptian cotton and Burmese rice are well-known examples. Soviet procurement of such products on fair terms and in reasonable amounts may well be advantageous to the exporting countries and even to the Western industrial countries. There is, nevertheless, a risk that too great a dependence on Soviet trade can lead to political dependence and subversion. A radical distortion of the traditional pattern of commodity trade between the underdeveloped countries, Europe and North America in favor of the Soviet Union must be avoided, even if this calls for a basic change in American thinking about commodity policy.

Export quotas

The most obvious technique for dealing with the current surplus problem is a system of export quotas which would share the smaller markets in Europe and the United States equitably among the traditional suppliers. This is the pattern which seems to be evolving for petroleum as the independent American producers press for limitations on imported oil to maintain a preferred position in the contracted market, and foreign exporters, especially Canada and Venezuela, seek to prevent the entire burden of the recession from falling upon their dollar earnings. In the case of petroleum, such a scheme could be administered by the big international oil companies. For other commodities some intergovernmental machinery, perhaps on the pattern of the International Materials Conference of 1951, might be required.

A system of export quotas could conceivably yield greater returns to the producers than uncontrolled markets, since a limitation of the supplies coming on to the markets could prevent a price collapse. And it would not require the appropriation of support funds. Nor would it involve a long-term commitment to stabilize commodity prices.

In a period of substantial surpluses, however, any attempt to stabilize the foreign exchange earnings of the commodity exporters is likely to require funds from the importing countries, especially the United States. If a decision should be taken to provide the necessary financing, there are various ways in which the funds could be used. Buffer stocks could be accumulated under agreements aimed at stabilizing future prices. But this approach is subject to all the well-known difficulties which international commodity agreements have encountered in the past. Or the im-

porting countries could make loans to the exporters, secured by surplus commodity stocks. But that risks the creation of surpluses which will drive prices down in the future.

It may be that the soundest approach is to leave the commodity markets free and to use dollar funds directly to support economic development in those countries which are the hardest hit by the decline in commodity earnings. The United Kingdom is following such a procedure by making sterling available to those countries in the sterling area which have been adversely affected by price declines. In this manner, the problem could be attacked fundamentally by diversifying exports through development programs and reducing the dependence of the exporting country on one or two highly unstable commodities.

If the normal commodity markets and channels of trade to the West cannot use these resources, perhaps other ways can be found to make them effective. Certain surplus commodities may be used to provide additional food and clothing for workers on development projects, thereby helping to speed up economic growth.

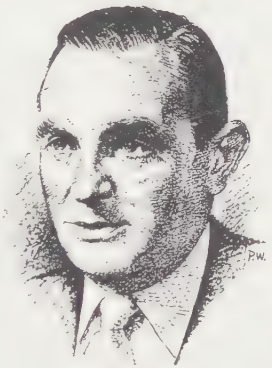
The United States has strongly opposed arrangements which affect the free functioning of international commodity markets except where the interests of its own producers, such as the wheat farmers, are involved. Pressures are building up to produce a change in this policy. These pressures can be reduced if the United States moves quickly to restore full employment and growth in the domestic economy, and if the trend toward protectionism can be halted and the advance toward liberal trade policies resumed. No action on the commodity front can be a substitute for these essential steps. But even if the economy expands and accepts imports more freely, we should take an imaginative, new look at the possibilities of using the world's commodity resources more effectively to promote economic development. The inevitable risks of such an approach are not as great as the risks of a rigid refusal to consider new ideas. ■

Conveyances in Miniature

THE CURRENT low prices of butter, cheese, margarine and sugar in Denmark have so tempted housewives in neighboring Sweden that large numbers of them have been making shopping excursions across the sound that separates the two nations. It is estimated that in one day recently more than 10 tons of butter were exported from Denmark by means of shopping bags. This situation was reversed several years ago when Danish women swarmed into Sweden to take advantage of the cheap market on almonds and overseas fruit.

Challenge Personality-of-the-Month

Charles Revson— Conspicuous Producer



IT IS obligatory to use the phrase *conspicuous consumption* in any study of the cosmetics business, surely one of the most entrancing applications of the term. Women, who have a genius for turning masculine abstractions inside out, are lacquering, powdering and curling themselves into a state that is arrant denial of Thorstein Veblen's grime-and-despair thesis.

Veblen would say that Revlon's 1957 sales of 90 million dollars represented a total loss to the economy, that the money was pure waste. But women still regard the capture and control of men as a prime objective, and the prettification of all 20 prehensile digits as a well-paying investment. Feminine economics continues to flourish, and Revlon's Charles Revson is its Henry Ford.

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

Revson, moreover, is as much concerned with the advertising business as he is with cosmetics, and both fields are more than classically competitive. Cosmetics has been called the nearest thing to jungle warfare; and advertising shudders between quick death and deep-dyed apotheosis. Since the advertising agency must depend on the client and since a client-cosmetics firm lives in competitive desperation, the effects on the client-agency relationship are reminiscent of the old Turkish Empire.

Revson, 51, began clawing his way upward as a cosmetics salesman. He reasoned that he could manufacture the stuff as well as anybody else and that the biggest part of cosmetics was the selling. He took his idea and 300 dollars into a New York City loft during the worst of the depression. His first product was a nail enamel that permitted a greater variety

of shades than the two or three then current. The only trouble was that a given pastel effect, so charming on application, turned sere and yellow.

Defending himself from his excessively conspicuous consumers, Revson improved his chemistry and brought Revlon sales from 16 to 90 millions in the past nine years. Revlon now produces two dozen beauty aids, including powders named *Love Pat* and *Touch and Glow* and paints like *Say It With Rubies.*

Revson's normal operative procedure is to find a female want, devise a slogan to meet it and then create a product that fits. His chemists enjoy a longer association with Revson than his advertising agencies; he has changed the latter almost with the years in the past decade.

When Revson fired prestigious Batten, Barton, Durstine & Osborn last year, a BBD & O executive felt impelled to announce that he was not weeping. Allegedly, the client was much to difficult to cry over. Revson denies a story that he forced a hungry advertising crew to work late one night while he solaced his labors with a dinner brought in from a good restaurant. A defender has insisted that Revson's temper is not intolerable and that he can be loyal to employees. In any case, the implied limited loyalty and temper require an appreciation that is well-developed in the advertising business.

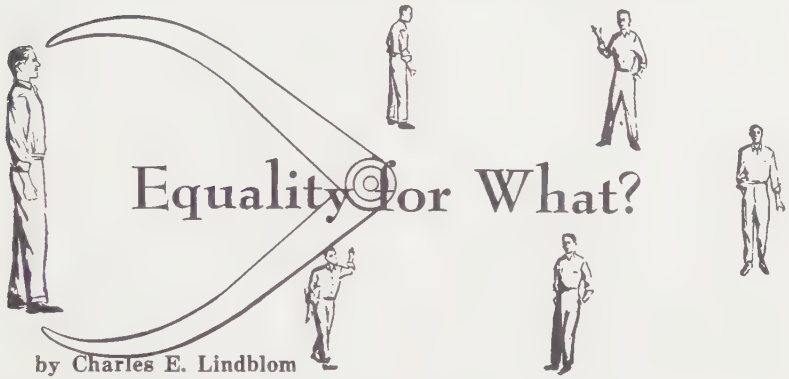
Revson's detractors admit that some of his many ideas are good. William Weintraub, who headed an agency working for Revson, maintained the association for a remarkably long time by outshouting his client. This had the effect of winning respect and drowning out the worst client ideas. But the Weintraub agency was bought out by a bigger firm and the new agency head suffered from deficient decibels.

Revson, who was described by a nameless woman as "smart, interesting and violent," reacted with violence to the contract that associated Revlon with the television program *$64,000 Question.* He called it "the worst trash I have ever seen." Revlon sales went up 50 per cent in one year.

A Revlon trademark is the Revlon model, who wears a satin or lamé dress that looks as if it were made of nail polish. Her lips are parted and moist, but Revson insists that she look like a good girl underneath the glamour and glow.

A smart businessman underneath his frontier fashions, Revson is continually seeking new products and slogans for planned obsolescence in feminine beauty. The new American woman, with Revson's help, seeks repetitive renewal with paint and polish.–D.F.

The democratic process requires a continual testing of the principle of equality against other cherished goals



Equality for What?

by Charles E. Lindblom

IN HIS classic analysis of American democracy in the early 1800s, de Tocqueville found equality to be the dominant and distinctive feature of life in the United States. This impression persists even if we and foreign observers alike find it increasingly difficult to reconcile our tradition of equality with the scale on which racial discrimination is still practiced in the United States.

The tradition of equality is, of course, not based on the belief that men are, in fact, equal in physical and intellectual capacity. Rather it is a belief that regardless of these differences in attributes, men should be treated equally.

Clearly, equality is not an end in itself. If we think of status, prestige, power, security, wealth and income as ends, the concept of equality simply refers to a rule or principle about how these ends or values ought to be distributed among individuals. Sometimes, of course, distribution of value affects the size of the total. For example, the distribution of the national income affects its total size; and, while some degree of equalization presumably increases the total, some kinds and degrees of equalization will decrease it.

What things of value, then, ought to be equally distributed, or –as the question is sometimes raised–more equally distributed than is now customary?

The first answer is clearly that not all values can be distributed equally. We cannot, for example, give every citizen equal rights to privacy in his own home and at the same time give all citizens equal rights to enter my home or yours. Privacy requires that I have rights to my home that no one

except my family shares at all.

Furthermore, the equalitarian tradition often calls for equal (or less unequal) distribution not of things of value directly, but of *opportunities* to pursue things of value. To the immigrant of the 19th century, for example, an equalitarian America was "a land of opportunity," and we can point to specific examples today. The equalitarian tradition in education, many thoughtful people would argue, calls not for equal professional training for lawyer and common laborer but for equal opportunity for each individual to pursue the education for which his interests and capacities suit him. Through our present dissatisfaction with public education runs a criticism of equal treatment of children with different capacities and interests, a practice interpreted as obstructing equality of opportunity for individual development.

Important inequalities

Moreover, we require–and the egalitarian tradition does not deny –important inequalities in order to specialize functions in society. We need policemen, but not all of us can be policemen; hence we give into the hands of a few men powers that are not equally shared. And who can be a parent without reserving to himself some privileges and powers not shared equally with one's children? For parent, teacher, judge, policeman, mayor, congressman, business executive, union official–for every special function, certain privileges and powers not to be widely shared have to be assigned.

Even if we put the point in terms of opportunities, it is clear that we cannot distribute equally the opportunity to appoint Cabinet members or negotiate with Khrushchev. Just where equal political power ought, according to the equalitarian tradition, to be located is not easy to say. But most of us will agree that political equality should refer to our aspiration for equal influence on "last say" decisions as to who will have unequally distributed political powers–and under what conditions. That is to say, we do not believe in equal power with the President, but we do believe in equal power to decide on who the President is to be and the conditions under which he can use his disproportionate powers.

The distribution of values can become antithetical to other important democratic traditions. Shall we, for example, equalize leisure time in order to equalize opportunities to pursue activities other than earning? Most of us

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would say no, for we want to be free within limits to work or play as we choose. Shall we equalize everyone's opportunity to ride a bicycle? To live in an apartment? To eat fresh sea foods? Most of us would think these policies both pointless and meddlesome.

Following the tradition

On many counts, therefore, the equalitarian tradition is qualified, hedged and restricted. Perhaps this is its strength: it is, as we know it in the United States, a principle for a reasonable man, not a fanatic. And in following the tradition, it turns out that we are less disposed to favor equality catagorically than to oppose identifiable kinds of intolerable inequality.

Six kinds of inequality have traditionally been denounced:

•Inequalities that make one man an instrument of another. On this ground we have rejected slavery and other institutions that commit one man to subordinate his life to another's. We have also pushed toward a high degree of political equality in the "last say" and called into question gross inequalities of income, both for the power that great income enjoys in government and for its power in the market place.

•Inequalities that create personal traits of arrogance, insensitivity, harshness and defensiveness, on the one hand, and servility, obsequiousness, apathy and hostility on the other. Such traits have been a conspicuous result of inequalities of status, respect, wealth and even forms of address.

•Inequalities that create arbitrary marks of superiority and inferiority and proliferate other invidious distinctions among men. Difference is one thing; invidious distinction another. A variety of styles and color in dress today permits each person to dress differently from each other; but dress is no longer a badge of class, as in the days of powdered wigs and silk stockings for gentlemen. We have, however, only begun to discard still other arbitrary distinctions based on birth, social class and stereotypes, all of which subordinate our regard for the individual and his merits to our regard for the often only imagined merits of a group in which we place him.

•Inequalities that leave the individual without the minimum requisites of food, shelter, health and education, without which he cannot develop physically, mentally or spiritually. It is on this ground, among others, that we have undertaken, through taxation, a redistribution of money income and government welfare programs.

•Inequalities that obstruct functional specialization. Inequalitarian societies pay a high price for inequality in their failure to re-

cruit and train their members for the thousands of skills necessary in contemporary society. The best way to get good judges, good executives, good union leaders, good barbers, good parents and good neighbors, is to break down rigidities that commit people to roles they do not want to play and sometimes cannot play, and to open up possibilities for training and for moving into appropriate roles.

•Inequalities that create social cleavages, including those that threaten democratic government. A severe enough impoverishment of the population produces men on horseback, as in the Great Depression of the Thirties, for it may destroy the fundamental consenus on which democratic government rests. Far short of that, inequality may produce tensions in the society that curtail broad ranging social intercourse. Today we are learning that income inequality between advanced and underdeveloped nations may sow such seeds of hatred as to prove dangerous to western democracy. Because our egalitarianism has traditionally stopped at the water's edge, we cannot yet say whether an extension of the tradition will meet the new problem of international inequalities.

It is not surprising that free public education was the first great explicitly equalitarian public policy in the United States, for education strikes at all these inequalities. Nor is it difficult to understand our half-hidden guilt in betraying a great tradition by continued discrimination against the Negro, in both North and South. In our treatment of the Negro we have aggressively practiced each of the types of inequality which the tradition abhors.

A question about which we are much less clear is the bearing of the equalitarian tradition on the distribution of income. We can interpret our history of public education, land distribution, public assistance, workmen's compensation, unemployment insurance, old-age insurance and progressive income taxation as evidence that gross income inequality was thought to be intolerable on all six counts. But these policies are also evidence that we have already done much to correct inequality. What more, if anything, does the tradition call for?

Income differentials

Absolute income equality is not an issue. Moderate income differentials can hardly be shown to produce the evils discussed. A more fundamental immediate objection to absolute equality as a policy is that almost no one is interested in it, so that it is irrelevant as a political issue. Still another objection is that we can only speculate wildly about an

economy without income differentials; we lack a basis for informed choice. Although, for example, we know that complete equality would damage certain incentives in any society whose members had motives like our own, a society so different from our own that income differentials were not necessary for incentives lies beyond our knowledge.

If absolute equality is not an issue, does the tradition call for a greater degree of equality? At this point, opinions differ. Clearly, the tradition calls for greater job opportunities, hence shares of income for Negroes, as well as for other minority groups now cut off in varying degrees from good job and income opportunities. Beyond this, it is clear that even among the dominant groups in the population, education is not equally available to all on the basis of capacity, nor is minimum medical care equally distributed, nor have invidious distinctions based on income differences disappeared. On these and still other counts, it can be argued that income equalization has not yet reached the end of the line.

But how far is far enough? The truth of the matter is that the equalitarian tradition is an ever-changing tradition. When we say in 1958 that no one should be without minimum food and shelter, we refer to a higher minimum than we had in mind when we said it in 1948.

Our sensitivity to inequality appears to grow decade by decade. We become increasingly intolerant of wasted human resources, frustrated personalities, divided societies; and we push on to set higher and higher standards for the removal of age-old blights on society. Moreover, having found that the 19th- and early 20th-century prophets of doom were wrong in believing that income taxation and redistribution would destroy economic growth, we now match our increasing intolerance of inequality with an increasing confidence in our power to reform without ruin. ■

Equality Its Own Contradiction?

- "EQUALITY of rights could all too easily be converted into an equality of violating rights. By that I mean, into a common war on all that is rare, strange or privileged in the higher man."–*Nietzsche*
- "AN AMERICAN is afraid of ranking himself too high; still more is he afraid of being ranked too low. . .He so loves equality that he would rather be equal in slavery than unequal in freedom."
  –*de Tocqueville*
- "IN FRANCE today, both rich and poor are equal before the law. . . neither is allowed to sleep on a park bench at night."–*Anatole France*

Warren J. Bilkey

Leading consumer consultant for government and industry

The Problems of Complex Living

Q *In this, as in most previous recessions, the consumer is generally believed to hold the key to future recovery. Administration officials and economists have urged him to "buy us out of the recession." Do the statistics to date indicate that he has been dong this?*

A Statistics in this field are tricky and it is dangerous to make generalizations. There has, for example, been a rather substantial reduction in the sale of postponable consumer durables such as automobiles, television sets, refrigerators, washing machines, etc. But even here, the statistics are by no means clear cut. While over-all automobile sales have been particularly hard hit, the more expensive models such as GM's Cadillac and Ford's Thunderbird are holding up very nicely, indeed. The same is true with many other consumer durables where higher priced models resist the general downward trend.

Q *Professor Bilkey, do you think that this slowdown in consumer buying reflects falling incomes or is it a sign of a growing unwillingness on the part of consumers to spend?*

A At present, we have no satisfactory measuring technique that will explicitly tell us whether cutbacks in consumer spending are a result of declining incomes or of a growing unwillingness to buy. Certainly, the slowdown in consumer spending together with the increase in savings seems to indicate that the consumer is no longer willing to make the

size of his income the only limit on the extent of his buying. Otherwise, his savings would not have gone up.

Q *Actually, how prosperous is the consumer? What has been happening to his income?*

A I think that we have to make a distinction here between the consumer's economic position and the way he looks at his economic position. In an absolute sense, there can be no question that the consumer is very well off. But relatively–and that is what counts when we are trying to find out about changes in consumer buying habits–the situation is a little more complicated. It all depends on *which* consumer you are talking about.

Q *What do you mean?*

A You have to look at changes in the distribution of incomes as well as at their size. Now, since 1950, there has been a rather marked shift towards greater inequality in the distribution of incomes. Of course, we have had such trends before. The period from 1919 to about 1930-32 was also a time of increasing income inequality. But from 1932 to 1950 (and particularly during the war period) we witnessed a substantial leveling trend in incomes. Since then we have had a reversal of this trend. Actually, our statistics probably understate this latter trend since there has been–especially since World War II–a great increase in payments of the capital gains kind and in expense accounts, and these payments, which generally apply to upper income groups, do not show up in our statistics.

Q *How do these developments affect our buying habits?*

A Again it is dangerous to generalize. But one thing is clear: it does make it increasingly unrealistic to think of the market for many mass produced goods as a homogeneous "mass" market. World War II had brought with it a very substantial increase in aggregate incomes as well as a growing equality in the distribution of that income. This created a situation in which the average worker increasingly wanted –and, what is more, could afford–such things as automobiles, washing machines, refrigerators, and so on, which had previously been considered as typical "middle-class" items.

Q *Has this situation changed substantially since 1950?*

A Since 1950 you have had a situation where the "haves" are getting more and the "have nots" are not getting more nearly as fast. Now, as long as incomes were rising *generally,* the effects of growing income inequality could be somewhat hidden. As long as more people are making more money, they will continue to spend more. The current recession, however, has tended to accentuate the effects of growing income inequality.

Q *In what way?*

A One rather obvious consequence is a decline in the purchase of mass market items–especially in the lower- and middle-priced range where most of the mass market is concentrated. The more expensive items continue to do fairly well since the upper income brackets have not, generally speaking, been hit by the current recession.

Durable goods manufacturers have been producing at a rapid pace

Q *Wouldn't you expect all groups, including the upper income brackets, to spend less in an inflationary recession like the present?*

A Logically, yes; psychologically, no. Now, there is a hypothesis in economics known as the Veblen-Duesenberry Hypothesis (named after Thorstein Veblen, 1857-1929, and James Duesenberry of Harvard University) which says that people in any given income bracket tend to mimic the purchasing behavior of the bracket above them. This, in turn, implies that the greater the inequality in income distribution, the greater the gap between different income groups and, therefore, the social and economic pressure on people to spend. I recently made a study to find out whether this was, in fact, what had happened between 1914 and 1952, omitting the war years. I found that the data was in complete accord with the Veblen-Duesenberry Hypothesis. Thus, during a period like the present, the wealthy feel that they have to show it, while those who are unemployed or fear future unemployment have to cut down on their spending. That is why you have a situation where, in spite of uncertainty about the future and rigidity in prices, the spending of the relatively well-to-do may even be increasing.

Q *Even so, we do have an increase in over-all savings. Is the "new"*

conservatism in buying greater than the current situation seems to warrant? To what extent is this slackening in consumer demand occurring in response to production and employment cutbacks?

A I think there are a number of factors to consider here. For one thing, durable goods manufacturers have been turning out supplies at a fantastically rapid pace. This means that most consumers are fairly well stocked with durable goods and can afford to stop buying without reducing their living standards. The average American will be just as well off–except, perhaps, psychologically–if he does not buy this year's model automobile, TV set or refrigerator.

Q *How about consumer debt? To what extent has this contributed to the consumer's increasing reluctance to buy?*

A I think consumer debt has had a discouraging effect on buying. As you know, the American public has been committing a growing portion of its growing income to installment debts. But nobody has yet worked out truly objective criteria for determining what is an appropriate level of debt for a particular family. As a result, there is a good deal of anxiety about debt, and this anxiety is naturally accentuated at a time like the present when there is considerable economic uncertainty. In times of recession, there is much less of a temptation to extend our debts; the more general tendency is to liquidate them and "clear the books."

Some gradual changes in the entire structure of buying

Q *Professor Bilkey, do you think that the apparent disenchantment with consumer durable goods which we are currently witnessing is a temporary phenomenon that will pass with the recession?*

A Please do not misunderstand me. I am not trying to say that there won't be a considerable resurgence in the buying of consumer durables in the next few years, assuming that the economy as a whole continues to grow. I do think that we are going to witness some rather gradual changes in the entire structure of buying, although I do not believe that this is something sudden which the current recession has imposed upon us.

Q *What are these gradual changes in buying to which you refer?*

A I think the best way to answer your question is to think in terms of living patterns. If you will turn to history, you will find that there has been a more or less continuous trend towards increasingly complex living patterns. Potentially, this means that the possibilities for a rich and varied life have increased immeasurably. There are today many more ways that the average individual can seek satisfaction than ever before. The question that many people seem to be asking themselves right now is whether they have been making the most of these opportunities. Has their concentration on the conspicuous consumption of material objects really given them the satisfactions they were seeking? Consumption, you know, can sometimes be a substitute for imaginative living.

Q *You mean that we often buy things because we can think of nothing else to do with our money?*

A Precisely. I remember that in Europe just after the war there was a sort of craze among American soldiers for silver-plated Luger pistols. Every soldier, it seemed, wanted to have his Luger silver plated at 75 to 80 dollars a pistol. Of course, this was ridiculous, and as soon as more meaningful possibilities for spending money began to materialize, nobody dreamed of silver plating his Luger any more.

Greater emphasis on activities centering around the home

Q *Do you see a trend towards more varied and meaningful consumption patterns?*

A Very definitely. More people are traveling–to Florida, Europe and to South America. There is a greater emphasis on the home and on activities that center around the home. Education and those cultural pursuits–books, theater, phonographs, hi fi sets, etc.–which can give greater content to our lives, are absorbing an increasing portion of our family budgets. Our living patterns, in other words, are slowly catching up with our money incomes. That is why I believe that we are going to see rather less emphasis being placed upon key consumer durable goods, although this need not mean that there will be an absolute decline in the sale of such goods. When it comes to sacrificing something

integral to our way of life in order to get a bigger tailfin or a wider TV screen, many of us will prefer to make do with what we have.

Q *This brings us to a rather important economic problem. What shifting of resources will be required to meet these more complex and diversified living patterns? How will more "sophisticated" consumption affect our major consumer durable industries which, after all, provide such a substantial proportion of our GNP?*

A Let me re-emphasize that we are here talking of *long-run* and *relative* changes. I would not be at all surprised if, in the short run, a new boom should bring about a tremendous jump in consumer durable sales. In the long run, however, certain fundamental changes in our allocation of resources will have to take place. For one thing, we shall need to develop greater flexibility in our productive resources. And that means we shall have to concentrate much more on basic technology, the sort that will truly enrich our lives. Companies that continue to produce the tried and true are going to find themselves getting a smaller and smaller percentage of the consumer's dollar. They will simply have to diversify in order to keep pace with the consumer's increasingly complex desires. Let the automobile companies, for example, develop a convertible, mass produced helicopter which will enable a man to transport his family on a fishing trip to Canada in as short a time as it now takes him to go from New York to Pennsylvania, and they will find a tremendous market. But if they continue to concentrate on the tried and true models, they will find that, while their total sales may be going up, their relative share of the consumer's dollar will not.

Q *But imaginative technology that does not meet with consumer approval makes for expensive mistakes, as many companies have found out. Where are the companies going to get the precise kind of information which will make imaginative innovation pay off?*

A I think that every responsible consumer analyst would admit that our data is still woefully inadequate. In many instances we have not yet even figured out *what* we should be looking for. As a result, a great deal of our analysis in this field is still a process of groping around for clues.

Q *Thank you, Professor Bilkey.* ■

Everyday Economics

DURING the summer months, burglaries increase because so many people are away on vacation. To avoid this sudden rash in housebreaking, authorities suggest these precautions before you leave on your holiday: you should inform the police when you leave and indicate how long you expect to be gone. Make sure that you discontinue deliveries of milk and newspapers because an accumulation of these items around the front door might whet a would-be burglar's appetite. Don't lower the window shades, and keep a light burning in the bathroom so that it appears as if the family is at home. To deceive by regularity, an automatic timer, which will turn your house lights on and off periodically, might be used.

Security in inventory

IF YOU have just taken out a new fire insurance policy, it might be a good idea for you to take an inventory of all the property you wish to have insured; next to each item listed, indicate its estimated value. Since many insurance companies require the insured party to supply them with a complete list of damaged and undamaged property when a fire has taken place, you will not have to rely on memory in making out your claim.

No secondhand checks

IF YOU want to get a good buy on a used car, you'll find these suggestions helpful. A good way to discover whether the car has ever been in an accident is to examine its fenders and sides for ripples which indicate that patching has been done. To find out if the car burns a lot of oil, put your finger inside its exhaust pipe to check for oil deposits. When you test-drive it, sight down the hood to check for a bent frame, spring trouble or faults in wheel alignment. The brakes can be examined by relaxing your grip on the steering wheel before your foot hits

the brake pedal. If the car stops quickly *in a straight line* you can assume that the brakes are in good condition.

Junior's new incentive

SOME parents are still of the mistaken impression that should their child's summer job earnings total more than 600 dollars, they will lose him as an income tax exemption. Until a few years ago, this was the rule. But now it is possible for a parent to claim his child as a dependent, no matter the youngster's income, as long as the child is under 19 or a student receiving more than half of his support from the parent. If you want Junior to quit his summer job because he is making too much money, forget it.

A new lease on . . .

IN MOST states, a tenant, living in a rent-controlled apartment, can not be evicted if he refuses to sign a lease. However, by having a lease, he may be sure of certain benefits. During the term of his lease, his rent cannot be increased despite the fact that the rental authorities have granted the landlord the right to do so. His apartment cannot be taken for the landlord's own use while he has a lease. Although the landlord cannot decrease his regular services to a recalcitrant tenant, such items as a new refrigerator or gas range will be much harder to secure without a lease.

It's income

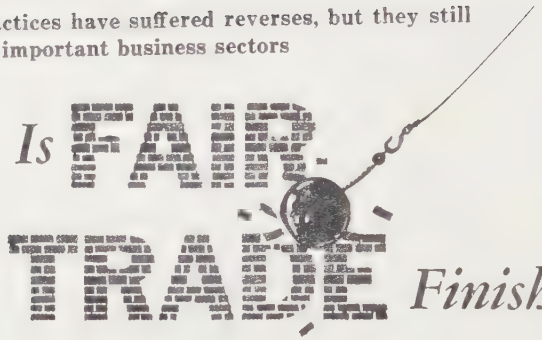
UNION members can expect to be taxed on the various strike benefits they receive from their organizations for food, clothing and rent. The courts have ruled that these benefits are payments made to members as a reward for their participation in a strike, and not tax-free gifts apportioned on the basis of need.

Don't beat that rug

HERE ARE several don'ts about rug cleaning that may be useful. You can take years off the life of your rug by using an old-fashioned rug beater, or for that matter, any beater. Usually, this archaic method will break the backing and hasten deterioration. You shouldn't use ammonia or other strong alkalies such as wall or floor cleaners since these materials may cause discoloration and damage to the wool fibers. Soap is another cleaner to avoid because it leaves a film which attracts fresh dirt more readily.–L.B.

Fair trade practices have suffered reverses, but they still have force in important business sectors

Is FAIR TRADE *Finished?*



by Stanley C. Hollander

TWENTY-ONE years ago the U.S. Congress passed the Miller-Tydings Enabling Act which opened interstate commerce to the practice of resale price maintenance, or "fair trade."

As late as 10 years ago, resale price maintenance, although bitterly debated, seemed firmly entrenched in American retailing. Since then it has staggered under a succession of legal and economic blows, strong enough, according to some observers, to doom the practice. While its advocates insist their principle is still sound and will come back stronger than ever, the history of fair trade throws considerable light on its present troubles. Apparently inexorable economic forces, the difficulties of applying deceptively simple regulations to complex businesses, and a political stratagem that backfired, make the history both stormy and interesting.

The Miller-Tydings Enabling Act did not grant simple and direct authorization for resale price agreements. Instead, it "enabled" any state legislature that so desired to authorize resale price agreements between manufacturers located outside its jurisdiction and retailers within the state.

This complicated arrangement was a clever appeal to the "states' rights" philosophy that had become a fairly popular reaction to the New Deal by the late 1930s. It served as a compromise between long-entrenched Congressional opposition to any sort of resale price maintenance, and the intense political pressures of retail associations, especially the druggists' trade organizations. Forty-five states soon became "fair trade territory" and only Missouri, Texas, Vermont and the District of Columbia failed to join the procession of authorizing states.

Under the McGuire Act of 1952, moreover, state legislatures were specifically authorized to write "nonsigner" clauses whereby a manufacturer with a fair trade agreement with one retailer could make that agreement binding on all merchants in the state by simple notice to the trade.

Although necessary to secure passage, this "enabling" technique contained the seeds of some of resale price maintenance's present legal difficulties, since it also enabled fair trade's opponents to challenge fair trade state by state. To date, 12 states have invalidated nonsigner clauses, and Utah and Nebraska high courts have completely thrown out resale price maintenance. While it is true that even more states, including such important centers as California, Illinois, Massachusetts, New Jersey and New York have held nonsigners' clauses valid and enforceable, the state-by-state nature of resale price maintenance makes the adverse rulings more significant than the favorable ones in some trades. According to a recent Supreme Court ruling, a mail order house headquartered in non-fair trade territory may legally take orders (through a store or office located in a fair trade state) for shipment into the state at prices below the minima set by the manufacturer. Thus, clerks in a New York City discount house sell controlled merchandise by simply writing up orders for a subsidiary mail-order house located in Washington, D. C. (non-fair trade territory).

Economic problems, however, seem to have been even more damaging to resale price maintenance than have the legal setbacks. In spite of the adverse court decisions, fair trade has worked, and is working (in the sense of providing a relatively tight control over prices) in the drug and cosmetic trade. Drug prices seem to have held up rather firmly in the states that have invalidated resale price maintenance, and discount selling of drugs has been relatively insignificant in fair trade territories. Appliance prices, on the other hand, have proven much less susceptible to control, and most appliance manufacturers have been forced to abandon resale price maintenance outright.

The importance of discount selling in the appliance trades, as contrasted with its significance in the drug and cosmetic trades, suggests the basic role of economic and institutional factors in determining the success or failure of price control efforts:

•Electric appliance purchases, unlike drugstore transactions, are

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often "optional" or "postponable." If the price doesn't seem right, the consumer can decide to live without an electric skillet, or to postpone replacing the old television set. Both the appliance dealer who doesn't give discounts and the manufacturer who doesn't have discount distribution must face the pressure of consumer decisions to forego buying, as well as to shop lower-priced outlets. And the consumer often has the time to shop around, while many drug items have to be purchased in a hurry to meet illness and emergency.

•The average unit of sale in the appliance shop is considerably higher than in the drugstore. The fact that a given *percentage* discount will result in a considerably greater *dollar* saving on any *one* appliance purchase than on any single drug or cosmetic purchase probably explains the consumer's greater willingness to shop around and bargain in one case than in the other.

Unit of sale

The smaller unit of sale in the drugstore probably has another effect. The sales transaction is often highly routinized, and self-service drug counters are becoming more popular. This means that price cuts must be announced publicly, by advertising and window signs, and hence are highly susceptible to policing efforts of manufacturers and competitors. Such price cuts also must be extended to all customers, even those willing to pay a higher price. Individual price concessions on appliances, on the other hand, can often be confined to obdurate buyers.

•Durable goods, such as major electric appliances, often involve trade-ins. The varied nature of trade-ins (resale value and quality) has tended to undermine attempts to establish uniform prices. The dealer can always observe the manufacturer's established price, and then overallow on the trade-in.

•Brand loyalty is especially strong in the drug and cosmetics field. The customer who believes that nostrum *A* will make him happy, healthy or handsome is not likely to switch to nostrum *B* just because a price reduction is available on *B* in some store down the street. Reasonable variations between stores in the prices charged for any one brand or item may have some effect upon *where* that item is purchased, but they are not likely to determine *what* brand or item is purchased.

The situation is very different in the appliance field. Many leading brands seem to be considered as more or less identical. Consequently, manufacturer *X* can lose sales if discounting makes competitive brand *Y* more attractive to con-

sumers, and *X* may have to retaliate through encouraging discount selling by his own dealers.

•Appliance manufacturers' promotional efforts, guarantees and service policies have made many consumers indifferent to the retailer. (These efforts have also helped discount stores to work on more than 50 per cent lower margins than those habitually used in traditional retail stores). Consumers often do not care where they buy an appliance, as long as it comes in a sealed carton and is accompanied by the manufacturer's warranty card. Many druggists, on the other hand, have been able to develop more or less firmly attached clienteles through skilled operation of prescription departments, prompt delivery services, soda fountain operations, etc.

•While discount selling is not new, more consumers patronize discount stores. During the postwar boom consumers bought more hard goods than ever before and became increasingly aware of opportunities for discount buying. And articles in popular magazines and the famous Macy-Gimbel price war of 1951 all served to advertise discount buying to more consumers. Some aspects of manufacturing and retailing in the two trades have also contributed to the difference in the durability of price controls.

Although retailers have been the strongest advocates and beneficiaries of resale price maintenance legislation, fair trade laws ostensibly exist to "protect manufacturers' interests in their brand names and trademark reputations." This is not entirely a legal fiction, since retail price-cutting *can* hurt in several ways. Full-price retailers may refuse to handle products sold by lower-priced competitors. Some consumers may regard price as an index of quality and merchandise priced too low may seem inferior. Some price-cutters may lure customers into their stores by announcing extremely low prices on nationally branded items, then "switch" the sales to more profitable merchandise, including private brands.

Lowering final prices

But retail price-cutting can also help manufacturers by lowering final prices and encouraging consumer buying. Consequently, many, perhaps most, consumer goods manufacturers either take little active interest in final prices or actively encourage price reductions. On the other hand, the strong solidarity of the druggists in favor of resale maintenance, reinforced by common professional training and by extremely vigorous state and national trade associations, have forced drug manufacturers either to go along with

fair trade or lose their outlets.

Differences in the consumer demand facing the two industries (drugs and appliances) seem to have been especially influential. Drugs and cosmetics have moved out of the exclusive jurisdiction of the drugstores and into price-conscious supermarkets. Yet, much to the surprise of many observers, the anticipated price wars have not broken out. Perhaps it is only the lull before the storm, but for the present, supermarket operators seem to have decided with considerable delight that consumers will pay manufacturer-set minima for health and beauty aids. However, the increasing number of supermarkets in many areas may soon develop increased competitive pressure on drug as well as grocery and produce departments.

Meanwhile, some advocates believe that direct federal approval of fair trade controls will effectively reinforce the weakened legal structure upon which resale price maintenance rests. Several such bills were introduced in recent Congresses with little success.

On balance, consumers are likely to benefit from the weakening of resale price maintenance. Scarce and not too reliable statistical evidence suggests that price maintenance narrows the range and lifts the general level of retail prices. Some high prices tend to drop toward the minima set by manufacturers, and, of course, the below minimum prices are raised when price maintenance is successful. The average price goes up, and price-conscious consumers are denied savings opportunities.

Price maintenance seems to have been a handicap, although not an invincible one, to innovation in appliance retailing. The Attorney General's National Committee to Study the Antitrust Laws concluded: "An effective 'fair trade' system strikes not only at promotional price cutting, but at all price reductions which pass to the consumer the economies of competitive distribution." Competitive economies in appliance retailing seem to have passed to consumers largely because of the ineffectiveness of fair trade. ■

Answers to Challenge Quiz

(See page 79)

(1) False *(see page 72)*
(2) False *(see page 18)*
(3) True *(see page 27)*
(4) False *(see page 8)*
(5) False *(see page 53)*
(6) True *(see page 23)*
(7) False *(see page 35)*
(8) False *(see page 48)*
(9) True *(see page 13)*
(10) False *(see page 67)*
(11) False *(see page 62)*
(12) True *(see page 40)*

While the most convenient form of investment for the man of modest means, mutual funds do not offer better than average performance

How Good Are Mutual Funds?

by Rudolph L. Weissman

IS THE investor getting good value from the investment company? The question gets larger as this type of firm grows in importance. Investment companies now have assets of 10.5 billion dollars, a tremendous increase from the less than 500 millions they had in 1940. One can easily predict that their assets will increase another 30 per cent in the next decade, even without a rise in common stock prices.

The investor is thus presented with a new range of choice when he puts his assets to work. Besides being able to choose from among a vast variety of individual stocks and bonds, he can also elect to invest in a company that will do the investing for him. With a few exceptions, these companies do not invest in newly organized corporations. They do, however, provide capital funds to business enterprise through the purchase of additional shares that are offered for subscription to all the stockholders of corporations.

Most investment companies are of the diversified management type. Their investments in any one company may not exceed five per cent of the total asset value at the time the investment is made and 10 per cent of the outstanding voting securities.

These companies are divided into two basic categories, the closed-end and the open-end. The closed-end firm has a fixed number of outstanding shares in the hands of its investors. Like any other kind of company, it may issue additional shares, but it does so infrequently. Its shares are traded on the national securities exchanges or on the over-the-counter market. Thus, one must normally buy the stock from another

stockholder in the conventional market place. The closed-end investment firm, which originated in Great Britain, is the oldest category of investment company. The United States has about 24 closed-end firms, with assets totaling 1.2 billion dollars.

Open-end investments

Few closed-end companies have been organized in recent years, as the open-end investment firms, or "mutual funds," took over the primacy. It is this category that has been responsible for the great rise of the investment companies. The open-end firm does not have a fixed number of shares. Instead, the number of shares is constantly changing because the firm is in the continual process of selling shares to the public or buying back those shares the customers want to sell. The firm agrees to redeem shares on request at the current asset value. This is a unique policy and is partly responsible for the popularity of open-end shares.

Open-end investment shares are not traded on stock exchanges but are bought directly from the company or through a dealer. The open-end company is an American invention that began in 1924 and expanded enormously after the beginning of World War II. There are now more than 140 such companies with assets of about 9.2 billion dollars.

The man planning to make investments should first determine his own financial situation and desires. Only then can he properly decide which of the many types of investment companies is best for him. Does he have sufficient resources and the philosophical attitude that can endure low early returns on growth or speculative stocks? Will he prefer a modest but secure return on his money?

The investor might have such specifically defined inclinations that he will be attracted to the specialty funds. These firms limit their investments to particular securities like bonds or preferred stock, or to securities in a certain industry–like oil, public utilities or chemicals. More recently, investment companies have been organized to buy stocks according to area–like Texas or Florida.

Some investment companies emphasize income while others concentrate on capital appreciation. An investor with a modest income would probably prefer the first kind, but a wealthy man, who would be forced to pay a high proportion of his income in taxes, would rather have an equity in companies that plow back their earnings into capital investment. In this case the year-by-year re-

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turns are smaller, but the investor's ownership share represents a growing wealth that is better protected against taxes.

Investment firms that concentrate on common stocks are known as common stock funds and have greater total assets than other investment companies. Other firms, known as balanced funds, keep about a third of their portfolio value in bonds and preferred stocks. Such companies promise "safer" but more modest returns.

Institutional holdings grow

Who owns investment company securities? According to preliminary surveys of the National Association of Investment Companies, there are more than three million stockholders. Professional groups are the largest owners, followed by executives and businessmen. Many retired persons and housewives are stockholders, and the number of institutional holdings is growing.

In early 1955, almost a third of the regular stockholders had shares worth 10,000 dollars or more, with the other two-thirds divided almost equally between holdings of 2,500 to 10,000 dollars and holdings of less than 2,500 dollars. This marked a significant change from the early days when the median value was between 500 and 1,000 dollars.

What attracted the investors? According to the surveys, they liked these features best: idea of diversification, 51 per cent; confidence in expert investment management, 24.8 per cent; and convenience of ownership, 11.1 per cent.

There are four major reasons for the investment firm growth. The Investment Company Act of 1940 corrected the most serious deficiencies of previous years and provided for full disclosure of investment operations. The investor could be confident that the company would not cheat him in favor of insiders and that it would not undertake secret speculative adventures.

Second, the investment companies have been able to exploit the inflationary situation of the country. They could point out the shrinking purchasing power of the dollar and the declining worth of savings accounts or bonds. Common stocks were recommended as a hedge against inflation, while the investment firms could give additional protection by diversifying holdings among various common stocks.

Third, the investment companies approached their potential customers with modern promotion programs. They used advertising on a scale never attempted before in the financial markets, and they reached people to whom stocks were an intimidating mystery.

Salesmen were encouraged to go after customers by commissions that were substantially higher than brokerage commission rates. Moreover, the customers were attracted by such features as accumulation plans and the automatic reinvestment of dividends.

Regular dividends

Fourth, the investor was assured of receiving his dividends regularly. The dividend amounts would naturally vary with general business conditions and the management policies of the investment companies, but the different holdings assured returns even if a number of individual stocks had a bad year.

How has the investor fared? He has averaged slightly less than four per cent returns annually, a modest return that should be judged in the light of the fact that investment companies in general have shown a tendency to sacrifice income for possible capital gains. This tendency can be criticized, but the investors appear to accept it.

The size of the selling commissions–eight to 8.5 per cent on the offering price for open-end companies–is an important consideration. The companies have reduced the commission on big sales–a fact, however, that does not concern the small investor. But if the investor buys with the idea of holding his stock for several years, as he should, the commission is not too onerous.

The investor should also make allowances for the management fee, which averages about 15 per cent of the investment *income*. The cost does not appear excessive, if the management job is done competently. Many of the larger investment companies reduce the usual management fee, either on the entire assets or on the assets above a certain amount.

In the light of all these factors we may now attempt to answer the key question: Is the investor getting good value from the investment firm? It is true that not many investment companies consistently outperform the stock market averages. But investment by its nature, deals with uncertainties, and controversy will remain. Some people insist that the individual would do better if he invested in individual stocks. But the history of a few well-known stocks since 1946 shows wide vagaries. The changes in the market value of American Telephone & Telegraph, Woolworth, Coca-Cola and Standard Oil of California have ranged between a 400 per cent rise and a 50 per cent decline.

The investment company thus protects the small man against the losing stock by spreading the risks. It also keeps him from be-

coming a boardroom habitue with the compulsion to follow the quotations on a daily basis. Trading is for professionals who have the training, the knowledge and the time.

But the necessary commissions and management fees represent added charges on investment company returns. The investor, moreover, is paying for caution and regular returns, and investment firm managements refuse to give themselves a greater maneuverability by selling a large part of their portfolios and holding cash for attractive opportunities. They prefer to shift back and forth between safer and more speculative stocks.

The competition between investment companies and individual stocks has become a kind of cold war, but there is no reason why there should not be a peaceful coexistence between the two. The prudent investor can own both types of stock, depending on the investment company for regular returns and indulging in more ambitious speculation in certain individual stocks.

Room for improvement

Certainly, there is room for improvement. Investment companies could display more courage in taking a position on the competence or policies of the firms whose securities are owned. I would also like to see less emphasis placed on inflation. The greatest increase in common stock prices in recent years–1927-1929 and 1953-1956–occurred when the wholesale commodity price level was amazingly stable. The emphasis on growth and blue-chip stocks reduces the immediate returns. The blue-chip returns have often been ridiculously low, driven even lower by the persistent buying of investment companies themselves and other institutional investors.

Unresolved questions remain. The growing size of the investment companies has had an undefined influence on the market. Their history, moreover, has been chiefly identified with a major rise in stock prices. A less buoyant stock market may disappoint the expectations so conditioned and may very well reduce future investment company growth generally. A falling market would make a significant difference in returns. Furthermore, the potential field may be closer to a saturation point, with fewer possibilities for new entries and expansion.

The average investor should surely investigate the value of investment companies in relation to his investment program. The proper inquiry should begin with a consideration of what he wants, what the investment company offers and what he thinks he can get for what he pays. ■

Economics in Action

time study

Students of economic phenomena are trying to make up their minds on a situation with double dimensions. The factor of time is giving their decisions the character of frustrated history before they have a chance to become operative. The fact is that the recession has been moving so fast that the statistics have lagged far behind. Economic estimates are always behind events and they are more so today. Planning based, for example, on unemployment statistics for a period already well past is not likely to meet the new demands. The dynamic character of the American economy has, unfortunately, imparted itself to the recession.

deep study

The gross national product was down four per cent from its 1957 peak. Goods and services were being produced at an annual rate of 422 billion dollars in the first quarter of this year, compared with rates of 432 and 440 billions for the fourth and third quarters of 1957. One recent study reported that five of 12 major business indicators were down from previous peaks by greater distances than they had been in the two previous recessions. The indicators were industrial production, steel, new orders for manufactured goods, automobiles and housing.

triple play

The new recession has already shown itself to be the biggest and fastest of the last three recessions. It took less time to surpass the relative decline of its predecessors. Its GNP drop of four per cent to date compares with 3.2 and 2.7 per cent peak-to-trough falls in the previous periods.

Discouragement took on statistical form in such factors as inventories which declined at an annual rate

by the numbers

of nine billion dollars in the first quarter of 1958. This compares with a drop at a 2.7-billion-dollar rate in the last quarter of 1957, a sharp indication of intensified momentum. Repossessions of automobiles and other consumer durables were up by 50 per cent over last summer, and bankruptcies had increased by at least 25 per cent.

conservative consumption

Consumers were in a carefully measured retreat from the markets. Their disposable income was down slightly and they were reacting with more conservative demands. A recent survey said that one-third of consumers interviewed said they were better off than a year ago, while a third reported being worse off. These were the worst reports in three years and compared with the reactions of the recession years 1949 and 1954.

the new leisure

Income declines were reflecting reductions in employment and weekly workhours in manufacturing, now down 1.5 hours to about 38 hours from a year ago. The major cutbacks were in automobiles, steel and machinery.

up on the farm

Constitutionally contrary, the farmers provided the most optimistic economic element at midyear. The net income of farm operators was still in vigorous ascendancy after achieving an annual rate of 13 billion dollars in the first quarter of 1958, up 1.3 billions from the same quarter of 1957. It is expected that net income this year will be five to 10 per cent above last year's 11.5 billions. The income increase is the result of higher prices, caused by weather-created crop shortages, and Soil Bank payments.

price persistence

Prices in general, reacting to farm prices in particular, continued high. The index was hovering around 124 (1947-49 = 100), after rising six per cent from early 1956 to the fall of 1957 and another percentage point since then. The inability of producers to cut costs was regarded as the primary reason for the fail-

ure of prices to respond in classical fashion to recession forces.

persuasion and prosperity

Despite brave words by business and enthusiastic press releases from Washington, the state of the economy was still on the slippery slope of the indexes. The nation remained enormously prosperous and capable of changing matters if it acted appropriately–but it had reason for modulated concern as long as an international crisis did not take those matters into its own hands.

* * *

wait and see

WASHINGTON—The economy continues to be the primary source of concern here. The statistics continue to point downward. GNP during the first quarter was at the lowest rate since the third quarter of 1956. The number of hours of work in manufacturing hit a postwar low in April. Even personal income figures, which in total show an increase over last year's record levels, are open to some skepticism. While the seasonal increase for April was 500 million dollars, this was due primarily to a rise in government transfer payments–unemployment and old-age benefits and dividends declared on GI life insurance. Wage and salary income actually declined by a half billion dollars. If the figures do not show the economy to be holding its own by the middle of June, then massive government action can be expected. In the meantime, it is wait and see. There is no one who really knows–or can know–what will happen.

more trade and aid

The next six months will see the United States more involved and committed abroad than ever before. Isolationism is dead. The experiences of Vice President Nixon have changed the entire complexion of the trade-and-aid controversy at home. The reciprocal trade agreements will be only the beginning of a massive effort to work out mutual agreements aimed at creating a healthy integration of the economies of the West-

ern Hemisphere. Our review of economic and political troubles south of the border will develop into a full-fledged review of our economic assistance programs all over the world. There is a good chance that more American money will be funneled through the United Nations and other international agencies on a coordinated basis, with special pains being taken to eliminate any possible implication of political strings. Emphasis will be on capital development plans.

Nasser on his own

It is too early to tell what troubles for the Western world Nasser brought back with him from Moscow. One thing seems to be fairly certain. He knows now what the Communist world is willing to do for his United Arab Republic. What he wants to find out is what the West will pay for his neutrality. The chances are very good that he will get attractive offers–attractive enough to keep him from military adventures and concentrate on the economic development of his country. The rest of the Arab world does not pose a threat to him, particularly since at best Lebanon has now been virtually eliminated as a spearhead of unlikely Western intervention.

NATO's crose

But all bets are off concerning the Arab world if the French misadventures with Algeria and Tunisia continue. At this writing France is in turmoil. The consensus on a principle of authority is completely lacking. If De Gaulle takes over, the Russians will try to use the Algerian issue to cripple NATO. Everything depends on De Gaulle's attitude toward NATO. If he weakens NATO, he may find peace in Algeria. If he tries to run NATO, he will be caught between German resistance and Communist noncooperation. However it works out, De Gaulle's rise will mean a complete reshuffling of NATO plans. If NATO collapses, Khrushchev will have to reverse himself on his "soft" policies. Talk about the summit will really end. If the Chinese are truly dissatisfied with his lack of orthodoxy, he may even find himself out of a job. ■

The Utility of Economists

What they can–and cannot–tell us

by Haig Babian and Martin Kessler

Most people are willing to grant that an economist is engaged in a legitimate profession; but they would be hard put to explain what he does. The public image of other professions–medicine, law, engineering, etc.–is far more distinct. Even the nuclear physicist who rearranges a world which cannot be seen by the naked eye under any circumstances has his coterie of lay admirers.

Compared to the work of such professionals, the work of the economist often seems peculiarly futile. In fact, it is plain to everyone that the fate of the economy does not rest on what economists say, but on what people do. Few economists have distinguished themselves as efficient businessmen. They cannot give expert advice on what is today's best bargain in the way of vegetables or meats. And as for the stock market, most economists are as likely to make or lose money on their investments as their neighbors, who have never read Smith or Marshall.

But if the economist cannot help us with these everyday matters, what good is he to us? If he has no special experience with little problems, what right has he to talk on such big issues as taxes, inflation, economic growth, and so forth? Why don't governments, corporations, labor unions and other great economic bodies follow the advice of some practical people–even though they might be, as Keynes once remarked, "the slaves of some now defunct economist"–who would save us from the rarefied atmosphere in which ivory-tower specialists dwell?

In order to explain why an economist is useful, we must define his area of usefulness. Suppose we start by saying that an

economist is an individual who has acquired a fund of specialized information and a store of concepts of proved validity.

Certainly, one of the most useful achievements to be credited to economists in recent years is the concept of national income and national product which enables us to measure incremental changes in income and output in terms of value.

Now, defining such a measurable and valid concept is not easy. How, for example, do we relate an automobile manufactured in 1958 to the GNP figures for that year? The steel for that automobile may have been bought in 1957, the rubber for the tires in 1956 or 1957 at prices which vary from those currently prevailing. How do we avoid duplications? And then there are problems which strain the limits of the tools at hand. What about contributions to GNP and national income which never show up in the statistics, such as the services of housewives, or those engaged in do-it-yourself projects, or that part of a family's output that is produced and consumed at home and never marketed?

Measurable concepts

The economist can or will try to devise measurable concepts that are relevant to the institutional environment and the specific time and place being considered.

Thus, one reason why national income or product comparisons are notoriously unreliable is because countries do not always measure the same things. Soviet output statistics, for example, are especially tricky because of the number of price systems that operate side by side and because many incremental changes in the statistics represent transfers of activities from the self-contained home or farm to the market where statisticians can measure them. Yet, economists who specialize in analyzing concepts must try to get at the truth behind such statistics.

Only a qualified economist can interpret data into a meaningful and comprehensive description of how the economy is behaving. When considering the current economic recession, for example, how much weight are we to give to declining industrial production and employment, and how much to the relative stability of consumer purchasing? Economists can be of inestimable value in the formulation of intelligent opinions about such matters.

Still another example of how an economist develops descriptive concepts is provided by his attempts to analyze the flow of income among different individuals, from industry to industry and nation to nation. Again it is the

economist who determines what is to be measured. He decides what kind of income flow is significant and therefore should be, or can be, measured. Take, for example, the oldest kind of income flow analysis: the balance of trade and payments among nations. This kind of national trade accounting arose with the emergence of nation states in the 13th and 14th centuries–that is, as the need became obvious. The entire development of international trade theory is, in a sense, a refinement of concepts which measure transfers of products and income across national boundaries.

Conceptual boundaries

Income and product flow analyses within one nation are much more difficult. But again it is the economist who draws up the conceptual boundaries of what is to be measured–the flow of government funds, money velocity, interstate transfers, etc.

To get the most out of the work of an economist, we must meet him at least half way. We must learn to ask him the right questions–questions he has been specially trained to answer.

What are such questions? Perhaps the most important one the economist can help us answer is the relative cost (in the form of money, labor, etc.) incurred by, and income (in the form of money and "utility") derived from, any given expenditure. In the early history of economics it was generally believed that most people made decisions to buy, invest, save and rent by rationally weighing costs against utility. If we could really calculate the costs and utilities (the pleasures and pains) of everything we do, and if we would always act upon such calculations, then every man could be his own economist. But this is clearly impossible. The complexities of the economic system are such and the number of choices available to an individual are so many that no one can ever be certain what constitutes the best value for his money. Not even a giant corporation with the most up-to-date cost accounting system can ever be certain that it has made the best possible allocation of resources. Economic decisions always involve an element of uncertainty and risk.

What the economist can do is help us to keep this area of uncertainty at a minimum. He can help us transform the possible into the probable. The economist does not make decisions, but he can provide those who do with the factual and hypothetical information needed to reach an intelligent decision.

In order to do this, an economist must keep his concepts in tune with changing times and changing problems. No generalization about operational concepts

can be eternally true without important modifications. One example of an operational generalization which has lost some of its relevance is the quantity theory of money. Very briefly, this theory states that the general price level varies directly with the quantity of money in circulation multiplied by the velocity of its circulation, and indirectly with the volume of trade. This basic proposition of capitalist economics enables governments to influence price levels through direct and indirect control over the rate of credit contraction and expansion. It has long been considered an important weapon in attempts to moderate the severity of cyclical fluctuations in relatively free economies.

"Sticky" markets

The quantity theory of money makes a number of assumptions which are no longer altogether valid in our highly organized economic system. One assumption is that all prices are competitively determined in the market place. Actually, major producer goods markets in industrialized nations are "sticky"–that is, their reaction to changes in demand are imperfect and delayed because of the power of major producer groups to set prices reflecting more than considerations of competitive supply and demand.

Of course, this does not "disprove" the theory. The relationship between the quantity of money, its velocity and the volume of trade in an environment of competitive price formation is not at issue here. The theory is no longer completely relevant in an environment where price formation takes a different form. What this form is and how the new environment operates is what economists are attempting to determine.

Economic theories and hypotheses are postulated by economists according to the real or apprehended needs of the times. Thus, economics as a special discipline did not develop until the emergence of complex exchange economies and nation states in Western Europe in the 16th and 17th centuries. At that time, the primary "economic" problem–as seen by merchants and statesmen, who were the only ones concerned with such problems–was the accumulation of capital within the state. The emphasis was on wealth as a means to national power.

But as the ends of mercantilist policies were increasingly realized, the state (and its restrictions) were increasingly regarded as obstructions; and the entire emphasis of economics shifted from macro to micro problems, from regulation to the study of self-regulating mechanisms. From this point of view, early classical theory emphasized the role of pro-

ducer costs in determining value, and particularly, as was natural in a period of early industrialization, labor costs.

Later, with the vast advances in technology and the subsequent expansion of markets, the emphasis in value theory shifted from costs to the intensity of demand. This, in time, gave rise to marginal utility theories of value determination. Then, as imperfections in market structures and economic stability became matters of increasing public concern, the emphasis of economics shifted again to monopoly and oligopoly theories, and later to the national income and business cycle theories of Keynes and Schumpeter–a return to macro problems. More recently economists have increasingly focused attention on economic growth–in response to the needs of the underdeveloped areas.

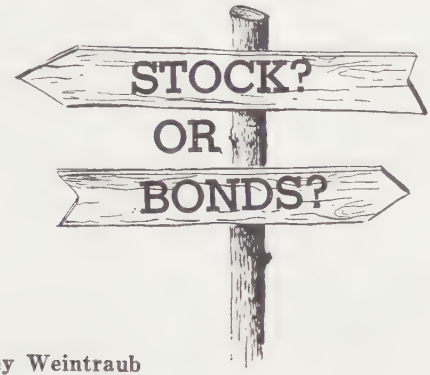
When it comes to policy questions, the economist performs the same function as the scientist. Both can provide the decision-maker with the tools he needs to do a good job; neither can be blamed if his tools are misapplied to foolish ends. The only difference between the two is that while the scientist can tell us with great accuracy what the results of such misapplication will be, the economist cannot. The scientist can predict with much greater certainty how much damage a hydrogen bomb will cause (or how many lives a new vaccine will save) than an economist can predict anything.

But this should not necessarily be held against the economist. Unlike the scientist, the economist cannot test his hypotheses in a controlled experiment. Will the cold war deteriorate? Will the next administration be Democrat or Republican? Will the consumer buy more or fewer cars, appliances and TV sets? If the answer to any one of these fundamentally unanswerable questions proves wrong, so is the entire prediction. That is why economic predictions tend to be much more accurate when confined to a limited period of time (six months to a year) and a limited problem–say Chilean copper prices.

Economic predictions can be useful, moreover, even when they prove to be wide of the mark, for they can show us *why* things worked out differently than had been anticipated. In this way, they can contribute to our understanding of economic change.

And that, after all, must be the final "utility" of the economist–that he contributes to our knowledge of the social universe. In the long run, all knowledge is "useful." But, like other kinds of knowledge, economic analysis does not prescribe how we shall devote the tools it puts at our disposal. That is up to us. ■

Firms seeking new capital have found advantages and dangers in floating the great bond issues of recent years



by Sidney Weintraub

THE TREMENDOUS growth in the volume of corporate bond financing in recent years seems, at first glance, to reflect a new trend in our economy, one that appears to make business firms more vulnerable to bankruptcy in the event of an economic downturn of really deep proportions. Yet if one takes a longer perspective and considers other financing trends, this conclusion seems to be more subject to doubt.

The table on page 69 shows an enormous increase in the volume of securities offered since 1935. While total new security issues amounted to 13.5 billion dollars in the earliest of the periods, the corresponding amounts were 42 billions for the 1950-54 interval. In the three most recent years (1955-57), the total was 34.2 billion dollars, a rate of 57 billions for a five-year period if the current trends are sustained through 1958 and 1959.

When one looks at the record of the last 20 years, instead of a relative growth in the proportion of bond and fixed debenture financing, one sees a marked shift toward equity financing–that is, common and preferred stock.

In dollar terms, however, the volume of bond financing in the first five years of this decade is truly enormous, amounting to 32.8 billions in 1950-55 and 25.5 billions in the last three years of 1955-57. This great increase in the absolute volume of bond financing, although it represents a smaller percentage of total financing, presents a problem of new magnitude in our economic situation.

That the greater portion of capital market financing takes the form of bonds and notes is not so surprising in view of the fact that

the truly large borrowers are usually the public utilities. The large blocks of securities are readily absorbed by investors because of the favorable and stable earning records of such corporations. Other than in the 1920s, when stock issues often accounted for about a third of the borrowing by public utilities, their stock issues were generally about five per cent of their total borrowings, and only very occasionally exceeded 20 per cent through most of the 1930s and 1940s.

High ratios

Curiously, if one is inclined to argue very simply that high ratios of bond financing to total financing lead somehow to automatic bankruptcy and depression, it is quite apparent that the trend was exactly the other way before the big collapse in 1929, heavier stock than bond financing. Similarly, showing the tricks statistics can play, the heaviest proportion of stock financing came in the very depth of the Great Depression, in 1933. Thus, there hardly seems to be an automatic relation between either bond or stock financing and economic prosperity.

In the postdepression period, when stock issues have grown relative to bond issues, the reason is not hard to understand. As stock market prices rise and the ratio of earnings and dividends to stock prices falls, it becomes increasingly attractive to firms to issue stocks rather than bonds. The firms are getting proportionately more in the sale of stock and paying out proportionately less in dividends in booming stock markets.

Most of the fears about bond financing are related to the belief that reliance on fixed interest-bearing obligations makes the economy vulnerable to bankruptcy in the event of a deep business fall-off. One of the lessons of the 1930s, it was long thought, was that firms ought to strive to hold to a minimum their bond indebtedness and, wherever possible, finance by means of stock issues. On this basis, if there were lean years of limited earnings or even losses, firms would not face the prospect of bankruptcy proceedings.

This proposition has several aspects. First, has bonded indebtedness really grown out of proportion to other facets of the economy? Looking at the data in the table, bond issues were almost 12 billion dollars in the last five years of the 1930s and almost 33 billions in the first five years of the 1950s, a tripling in magnitude. But the money value of all goods and services produced in the

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Corporate Securities Offered for Cash			
	Totals (in billions)	Bonds and Notes (% of total)	Common and Preferred Stock (% of total)
1935-39	$13.5	87.9	12.1
1940-44	10.8	86.8	13.2
1945-49	32.6	78.6	21.4
1950-54	42.0	77.0	23.0
1955-57	34.2	74.5	25.5

Source: *Economic Report of the President* (January, 1958)

country per annum grew from an annual average of some 85 billion dollars in the late 1930s to 336 billions in the first half of this decade, a quadrupling of the gross national product. Judged from this standpoint, therefore, the rise in bond financing does not appear to be excessive.

In the late years, of course, the pace of bond financing has increased, to about five times that of the late 1930s. Yet the average annual flow of the gross national product over the last three years has hovered at the 415-billion-dollar level. Thus, even the more recent spurt in bond financing does not as yet appear to be very much in excess of the developing sales and production trends.

This is not to suggest that there are no problems, or that difficulties may not be in store for corporations making excessive reliance on this mode of finance. It is to suggest, however, that as long as the gross national product keeps rising at the same pace, or at a higher rate, than the growth in outstanding bonded indebtedness or, better still, at a faster pace than the interest and amortization payments on this existing debt structure, there is no imminent danger: the economy can well support the debt total.

The trouble comes when the interest and capital repayments on the outstanding obligations grow faster than sales receipts; in that case the fixed charges command an even greater portion of the net sales dollar. The same consequences follow when debt charges remain reasonably constant in absolute magnitude, even while income trends are turning down. The last situation is, of course, a characteristic of an important business downturn; it is in this connection that the financing trends contain significant dangers.

We can conclude that bond financing does not hold portentous difficulties, as long as high and

growing employment and income levels are maintained. Once depression phenomena develop, the presence of a mass of fixed payments contingent on high earnings is capable of leading to secondary economic disorders by defaults and bankruptcies, compounding the original distress and obstructing any prompt maneuvers toward recovery. It is in this light that the growth in debt totals must be viewed as a potentially complicating factor.

What is the relevance of our depression experience and the dangers of financial rigidity to the present recession? Has the present kind of market financing contributed to recession? Could it not have been averted? For the major part, the answer is "No"–with a qualification.

Our economy has a heavy fixed indebtedness for a simple reason. Institutionally, banking and insurance companies are largely precluded by law from purchasing stock shares. This means that large borrowers wanting to enlist the resources of this great body of lenders, *must* issue bonds or shorter-term notes carrying fixed interest terms. This is probably the major reason for the heavy capital market concentration on bonded indebtedness.

A second reason stems from the borrowers themselves. Consider the case of a firm which is earning 15 per cent on existing invested capital. If it issues new shares of stock to finance plant expansion, it must share this high rate of earnings with new stockholders. Perhaps the rate of return expected on the expanded plant facilities is 10 per cent. Thus, the company must share the previous 15 per cent profit with the new stockholders, even though the new capital they contribute will earn a 10 per cent return. It is a great advantage to the firm to borrow by issuing bonds which carry an interest charge of merely four to six per cent. The firm can then earn 10 per cent and pay out only six per cent, with the difference being pocketed by the existing stockholders.

Outstanding bonds

A third important reason for the emphasis on bond financing lies in our tax laws. Interest payments on outstanding bonds constitute a legitimate and deductible business expense, on par with other business costs like wages and raw materials. On the other hand, necessary earnings to pay dividends are not treated as business expenses; they are subject to taxation at the ordinary corporate income tax rate, currently 52 per cent of corporate profits.

Consider the case of a firm that wants to attract a certain amount of capital for plant expansion. If

it relies on stock financing, it would have to pay $5.20 in taxes on a 10-dollar gross profit gained from a capital of 100 dollars. This means that the firm can promise a net return to investors of only $4.80 for their 100 dollars.

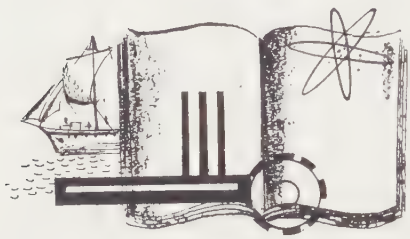
If, however, the firm seeks 100 dollars by a bond issue at five per cent, the tax does not affect the 10 dollars in gross profits until the bondholders have received their five-dollar return. The tax collector applies the 52 per cent corporate profits tax to the five-dollar remainder, taking $2.60 instead of $5.20. In other words, to attract 100 dollars the firm can offer a return of $7.40 to be divided between bondholders, who get five dollars, and the stockholders, who get $2.40.

Small wonder, then, that there is a tendency to revert to the historical financing pattern despite the solemn pledges of the 1930s. Corporate executives of that era, trapped by rigid financial structures, said that they would never again permit this to happen. Apparently the generation of business leaders who took this vow has largely disappeared. Their successors have been carried away by the optimism and exuberance of the postwar years.

While we probably shall have no great depression, the existence of fixed indebtedness creates new problems for the firm in the case of a business downturn. On the upswings, fixed indebtedness becomes ever easier to manage. With the inflationary crest of the past decade, firms have been living in a paradise of profit-plenty, benefiting from quick economic progress.

There is another factor of great importance, the growing tendency of business firms to avoid the capital markets entirely. Instead, they rely on their internal financing, using undistributed profits and depreciation allowances to cover their replacement and expansion needs. In the last few years, about two-thirds of the new financing needs of business enterprise has been covered by such internal sources. While this facilitates investment activity in good times, it also suggests a host of troubles during periods when plant capacity is not fully utilized.

The presence of these huge sums, currently about 25 billion dollars a year, suggests that the business economy must keep running in order to stand still, merely in order to provide an outlet for the funds immediately accruing to the firms out of their sales receipts. The problems created by the magnitude of these large, almost automatic depreciation and depletion quotas may create more problems for the economy than those due to stock and bond financing. ■



The Permanent Frontier: No. 8

Jacksonian democracy and the expanding character of economic opportunity in the United States

AN UNMISTAKABLY close relationship exists between what is called "Jacksonian democracy" and the expanding character of economic opportunity in the United States between 1821 and 1837. "For the first time," writes historian Richard Hofstadter, "many Americans thought of politics as having an intimate relationship to their welfare."

Jacksonian democracy centered less around a single man than around the simple but profound vision of economic opportunity. Countless small property owners and farmers, city craftsmen and workers, rising entrepreneurs and emboldened speculators clamored anxiously for the realization of this vision.

Andrew Jackson himself was a rather curious symbol of this new era. Born in a log cabin and reared in the crude, pioneering environment of North Carolina and Tennessee, he emerged as a frontier aristocrat, a self-made man of wealth. Indian fighter, hero of the War of 1812, holder of numerous state offices, Jackson more importantly was a grand-scale land speculator and slave owner.

With the Panic of 1819, he put aside the Jeffersonian idealism of his youth and sided with Tennessee's creditor class–he himself was a creditor at the time–fiercely opposing populist efforts to soften the troubles of Tennessee's debtor farmers.

Yet, within a generation, this same man was symbolic of all who yearned for equal political and economic opportunity. The explanation of Jackson's transformation lies less in the man than in his times. Here also is the clue to the economic import of Jacksonian democracy.

The times were marked by population growth and westward migration. By 1830 the West accounted for no less than 38 per cent of the nation's population; and after the War of 1812 this

group increasingly upstaged its demands on the national political scene.

In the Northeast, commercial and industrial prosperity shaped a new society–a propertyless urban middle class and a laboring class of factory workers. It is significant, however, that the factory population was still only a small part of the nation's total labor force in the 1820s and 1830s. The rural property owner still weighed heavily in American society. Excluding the South, four of every five citizens were independent property owners, mainly small farmers.

After his American travels, Thomas Hamilton, the British author of *Men and Manners in America* (1834), shrewdly concluded: "At present the United States are perhaps more safe from revolutionary contention than any other country in the world. *The great majority of people are possessed of property;* they have what is called a stake in the hedge."

In good part, Jacksonian democracy was the political reflection of these geographical and economic changes. All measured these changes–and their own opportunities–with a Jeffersonian yardstick. The majority did not question competitive, democratic capitalism. But they did challenge the inequalities they found in the political, economic and social structure of the times.

Central to the 1820s and 1830s was the profound transformation of the political system. Political reform meant simply equal voting rights and equal access to office–equal privilege. Men used the ballot as never before. While population hardly doubled between 1828 and 1848, the number of voters tripled.

Thus, the years before and after Andrew Jackson's election in 1828 marked the emergence of "mass democracy." Political equality thus became an instrument of attack against special privilege and artificial distinctions of all kinds. The "outs" clamored for legislation and public action that would effectively abolish artificial privilege.

This attack was conditioned by the reality of the 1820s and 1830s, when special privileges were commonplace. In a society dominated in good part by the ideology of small property owners, the special privileges granted to private corporations and, in particular, to state and federal banks by legislative enactment seemed especially reprehensible.

But unlike the Jeffersonians, the Jacksonians did not complain of "too much government." They

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This is the eighth article of a series in CHALLENGE which deals with the history and development of the United States economy.

were primarily concerned with what they viewed as the "misuse" of state and federal powers.

The movement for political equality had merged with a widespread demand for universal education, abolition of chartered monopolies, equal taxation, revision or abolition of the compulsory militia system, a less expensive legal system, direct popular election of all executive officers, a lien law for laborers, [and] no legislation on religion. If we add the abolition of imprisonment for debt to this list, there emerges a rounded picture of the Jacksonian social and economic program.

Rhythm of the times

Andrew Jackson's "utterances and his prejudices," writes historian Louis Hacker, "kept beat with the rhythm of the times." In no single instance was this seen more clearly than in his veto of Nicholas Biddle's bid for renewal of the Second Bank of the United States' charter in 1832.

The Bank War was very complex, and it is closely related to the other reform movements during the time. Given a 20-year charter by Congress in 1816, the Second Bank of the United States was fiscal agent for the federal government. In a rather primitive manner it performed the functions of a modern central bank. Though one-fifth of its 35 million dollars in stock was government-owned, *its entire operation was in private hands.*

Under Biddle's direction, the Bank cautiously extended loans and credit, served as a clearing house, sought to create a uniform national currency, and imposed rigorous restraints on the issuance of bank notes and credit by state and local banks.

Biddle's wise but harsh deflationary measures were bound to antagonize certain economic and sectional groups:

•In the West and the South, farmers and planters complained of paying tribute to Eastern stockholders. All but 88 of the nation's 502 banks in 1833 were north of Baltimore. Noting that the per capita circulating medium was nine dollars in the East and but two dollars in the West, they blamed Biddle and the Bank.

In the East, two groups gave challenge to the Bank–for entirely opposite and contradictory reasons:

•Private bankers condemned Biddle's "abuse" of power, labeled the Second Bank an "unfair" competitor, a confining and restrictive institution. Power over the money supply, they argued, belonged with the now rising class of entrepreneurs, not with the "octopus of finance" sponsored by the federal government.

•Urban radicals, labor reform-

ers and small businessmen–called "loco-focos"–distrusted all banks and blamed their economic difficulties on fluctuations in the quantity of paper and notes in circulation. Often the recipients of depreciated notes, they favored a return to "stable" hard coin.

Thus, some critics of the Second Bank wanted inflation, others wanted an end to paper money, still others were simply a competing group of bankers. Jackson himself had little faith in the "value" of paper money and publicly expressed himself on the "mischief" of paper currency many a time.

The message accompanying his famous veto of the Bank's renewal charter (1832) summed up the essence of the movement he now symbolized.

On a political level, he attacked the "concentration of power. . .in the hands of a few men irresponsible to the people." In economic terms, he contended that renewal would have meant the "prostitution of our government to the advancement of the few at the expense of the many." The Second Bank had to go because it symbolized a distorted relationship between government and business enterprise.

Reaffirmed conviction

It mattered little that Jackson's destruction of the Second Bank and his subsequent financial policies aided primarily the state bankers and did little for the enemies of paper money. He had reaffirmed his conviction that artificial distinctions and special privileges had no place in American society. In his veto message, then, whatever his motives and however weak and limited his notion of the banking system, Jackson gave *national* meaning to the reform movements of his time.

His critics bore down upon him mercilessly. But few of the diatribes took effect. In a society dominated by small property owners and by others who dreamed of possessing land and wealth, it was Jackson, not his critics, who spoke the "truth." And in 1832, he was returned to office by an overwhelming majority.

Jackson's financial policies encouraged but did not cause disastrous inflation. Speculation was rife. Bank loans expanded, from 137 million in 1830 to 525 million seven years later. Between 1828 and 1838 no less than 150 million dollars worth of British capital poured in to help finance new banks, canals and the railroads.

Where there were 506 banks in 1834, there were 788 banks three years later. Jackson's deposit of government funds in the state banks and his subsequent distribution of excess federal revenue to the states only heightened the in-

flationary spiral. With Biddle's Second Bank hopelessly weakened and finally defeated, the entire banking system went unregulated.

Jackson himself said that he "did not join in putting down the Bank of the United States to put up a wilderness of local banks," but his issuance of the Specie Circular (1836) was hardly sufficient to quell speculation and wild inflation. Credit had expanded far above the true savings of the people. Profitable investments fell off.

Soon after Martin Van Buren took office (1837), there came a money panic, then a severe depression that lasted until 1843. This depression marked the beginning of a new phase in the nation's economic history.

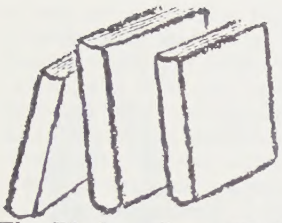
Nevertheless, the "Jacksonian Revolution" left a lasting impression. It united the concepts of "economic opportunity" and "equal rights." It wiped out the remaining notions of neomercantilism. In state after state, incorporation laws were enacted.

Summing up the economic consequences of the Jacksonian years, Bray Hammond, a leading student of pre-Civil War banking, had wisely observed:

"There was no more important factor in the Jacksonian movement than the democratization of business, which ceased thenceforth to be the *metier* of a predominantly mercantile, exclusive group or commercial aristocracy, as it was in the days of Hamilton, and became an interest of the common man. This process of democratization went hand in hand with the rise of laissez faire."

Finally, the popular politician had emerged. From now on he had to cater to popular needs and sectional grievances. It is not without humor that Daniel Webster–symbol of property and conservatism in these years–felt compelled in the election of 1840 to apologize for not being born in a log cabin. Running on the Whig ticket, he claimed humbler origins for his elder brothers and sisters, and "if ever I am ashamed of it," he declared piously, "may my name and the name of my posterity be blotted from the memory of mankind." ■

NEXT MONTH: the great migration to the West



READING REPORT

The Worker Views His Union. Joel Seidman, Jack London, Bernard Karsh and Daisy L. Tagliacozzo. 300 pp. University of Chicago Press. $5.75.

•It would be unfortunate if union members thought about their unions in as limited and bland a fashion as reported here. Labeled as the first comparative study of rank-and-file attitudes, this book reflects too few of those attitudes and too much of the authors' methodology. The workers are quoted as supporting the union idea for the usual motives of higher wages and better working conditions. The authors, all faculty members, appear to have limited themselves to a formal pattern of questions; a more vulgar reporter's curiosity would have produced less assimilable but more realistic responses. An interesting note: members of minority groups and those with little hope for advancement are the most faithful union members. The workers studied were members of six different locals, miners, plumbers, and steel, metal, knitting mill and telephone workers.

* * *

The Woman Executive. Margaret Cussler. 165 pp. New York: Harcourt, Brace & Co. $3.95.

•Most woman-executive careers, according to this study of 55 cases, were the products of such inadvertancies as war emergency and the sponsorship of a male executive. The results appear to be as painful as those of most accidents: the women report insecurity in their jobs and a barrenness of nonworking life. An executive herself, the author insists that the physiological and other differences between the sexes have never been well defined, an opinion that could inspire a variety of rebuttals. Miss Cussler records the distresses: alcoholism, aimless travel, overplanned joyless leisure and office intrigues. She suggests vaguely that something is wrong with our values. Is it possible that the woman executive, with her big desk and empty weekend, is a symptom of doubtful values?

* * *

Labor Unions and Public Policy. Edward H. Chamberlin, Philip D. Bradley, Gerard D. Reilly, Roscoe Pound. 177 pp. Washington: American Enterprise Association. $4.50.

•Unlike so many attacks on union power which invite disbelief because they are such obvious rationalizations of the management position, the four contributors to this admirable study present a thorough and honest analysis of a very real problem. As Prof. Chamberlin of Harvard University, one of our most distinguished students of competition and monopoly, points out in the first (and best) article of the book, trade unions are no longer the "underprivileged" sector of the economy.

Today, roughly one-third of the nonagricultural labor force is unionized, and since most of this is in "key" industries, unions enjoy even more economic power than their membership would indicate. And yet, they continue to claim legal immunities (such as exemption from antitrust prosecution) that no other institution enjoys on the theory that such immunities are necessary in order to give them bargaining "parity" with management. One may disagree with the authors about the wisdom of abolishing some of these immunities, but it is no longer possible to justify such preferential treatment on grounds of union weakness.

* * *

Japan's Postwar Economy. Jerome B. Cohen. 262 pp. Bloomington: Indiana University Press. $6.50.

•A book about the economy of any country in the world inevitably becomes a lesson in American economic policy. Prof. Cohen, paying tribute to Japanese energy and skill, must make the point that the future success of their achievement depends on American policy in general and trade in particular. The book is a well-proportioned and informative survey of Japan's most important problems and accomplishments, although one might wish for more imaginative insights. The problems remain classic: a booming birth rate, limited land and resources and Communist proximity.

* * *

The Perils of Prosperity, 1914-32. William E. Leuchtenburg. 313 pp. Chicago: Chicago University Press. $3.50.

•This aptly titled and breezily written history describes America's emergence as a prosperous world power and her failure, as we see it today with the wisdom of hindsight, to cope with either her international responsibilities or her prosperity. Prof. Leuchtenburg, who teaches history at Columbia University, has obviously done a prodigious amount of reading, and he manages to evoke the superficial atmosphere of the period. What he, like most other historians of this exciting but disappointing era, does not do is "explain" it. But that is perhaps an impossible task.

* * *

The Politics of German Codetermination. Herbert J. Spiro. 180 pp. Cambridge: Harvard University Press. $4.00.

•When "codetermination," the participation of labor representatives in the management of private corporations, was first enacted into German law, many industrial relations experts believed that it would mark the beginnings of a new era in labor-management relations. As Prof. Spiro, who teaches government at Harvard, points out in this comprehensive study of the German experiment, "codetermination brought hardly any of the fruits which its initiators wanted it to produce, but many which they neither anticipated nor desired." Dr. Spiro visited many plants in which worker representatives participated in basic management decisions. He concluded that, while codetermination has helped to smooth out many labor-management differences, it has been able to do this precisely because the individual worker's wishes have often been ignored by his representatives. Dr. Spiro approves of codetermination's objectives, but thinks that it will take more than "institutional engineering" to implement them. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good: 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 52.

(1) The operations of the Second Bank of the United States were controlled by the Secretary of the Treasury.

True ☐ **False** ☐

(2) The language of advertising favors the use of personal pronouns.

True ☐ **False** ☐

(3) The United States has traditionally opposed commodity stabilization programs.

True ☐ **False** ☐

(4) Throughout the 20th century, federal commissions have been the favorite target of Congressional investigation.

True ☐ **False** ☐

(5) Investment companies have been an important source of capital for newly organized corporations.

True ☐ **False** ☐

(6) Virtually one out of five corporate mergers ends in dissolution.

True ☐ **False** ☐

(7) The egalitarian tradition calls for an equal distribution of political power.

True ☐ **False** ☐

(8) Adverse legal decisions have caused the collapse of fair trade agreements in the drug and cosmetic trades.

True ☐ **False** ☐

(9) The Commodity Credit Corporation confines most of its surplus-storing activities to nonperishable farm products.

True ☐ **False** ☐

(10) During the 1930s, large corporations eagerly resorted to long-term bond financing.

True ☐ **False** ☐

(11) The opinions of economists are valued because they have firsthand experience with much of the material they study.

True ☐ **False** ☐

(12) Since 1950, there has been a relatively growing inequality in the distribution of national income.

True ☐ **False** ☐

DEPT. of BETTER MOUSETRAPS

From the World of Industry: A coloring process that will make colored stainless steel practical in architecture. . .An indoor grass-growing incubator that can raise enough grass in a year to feed 20 to 30 head of cattle. . .A bubble-burper that will detect explosion-causing bubbles in the liquid fuel of a rocket. . .A lightweight power megaphone that has an effective range up to three-quarters of a mile. . .A roller electrode spot welder that will simplify delicate welding jobs in industry. . .A double-spool typewriter ribbon that will fit any machine regardless of type or age; it is designed to be installed without handling the ribbon itself.

* * *

In the Garden: *A mechanical "blotter" that will soak up excess moisture from the lawn. . .A lawn and hedge trimmer that connects to the garden hose and is powered by water pressure. . .A powder dispenser that can be used for dusting chemicals, fertilizers and insecticides.*

* * *

Children's Corner: A bicycle coaster brake that works even when the drive chain is broken off the sprocket. . .Finger-painting paper that is enamel-coated on both sides and will resist curling when wet. . .An adjustable jump rope that allows its length to be taken in or out by the turn of its plastic handles at either-end. . .Mothers can relax with a baby anchor seat that is held to the bottom of the bathtub by suction cups; the seat holds the infant gently but securely while giving him freedom to splash and play to his heart's content.

* * *

Behind the Wheel: *An aluminum carrier that can be attached to either side of a car or trunk to hold long, bulky items. . .A plastic license holder that locks the plate in place and keeps it clean. . .A spare tire container that will inflate an average tire in less than seven seconds and doubles as a fire extinguisher. . .A reflective liquid that makes coated objects brightly visible at night when seen from behind headlights.*

* * *

Around the House: A smokeless, odorless gas incinerator that disposes of household trash and garbage. . . Plastic-domed canopies that will keep basement window wells dry and clean. . .A painting tool with a pipe-fitting shape that will ease the labor of pipe painting. . .Miniature ventilators that prevent moisture condensation between walls. . .Folding doors that are made up of adjustable vertical louvers to control light and ventilation.

* * *

Personal Business: *Plastic ear-locks that fit on the ends of eyeglasses and prevent them from sliding down on the nose. . .A throwaway plastic razor that has a stem filled with one-eighth of an ounce of brushless shaving cream. . .A hair dryer that works effectively regardless of head position.*

* * *

Write to CHALLENGE magazine for additional information. ■